Bracknell Forest Council

NOTICE OF MEETING

Governance & Audit Committee
Wednesday 30 January 2019, 7.30 pm
Council Chamber - Time Square, Market Street, Bracknell, RG12 1JD

To: Governance & Audit Committee

Councillor Allen (Chairman), Councillor Thompson (Vice-Chairman), Councillors Ashman, Heydon, Leake, McLean, Mrs Temperton and Worrall

Independent Member

David St John Jones

cc: Substitute Members of the Committee

Councillors Mrs Hayes MBE, Dr Hill, McCracken, Mrs McKenzie-Boyle and Peacey

Gill Vickers
Executive Director: Delivery

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AGENDA

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GOVERNANCE & AUDIT COMMITTEE
31 OCTOBER 2018
7.30 - 8.05 PM

Present:
Bracknell Forest Borough Council:
Councillors Allen (Chairman), Thompson (Vice-Chairman), Heydon, Mrs Temperton and Worrall

Independent Member:
David St John Jones

Apologies for absence were received from:
Councillors Ashman, Leake and McLean

17. Declarations of Interest

There were no declarations of interest.

18. Minutes of previous meeting

RESOLVED that the minutes of the meeting of the committee held on the 25 July 2018 be approved as a correct record, and signed by the Chairman.

19. Urgent Items of Business

There were no urgent items of business.

20. Annual Audit Letter for the Year Ended 31 March 2018

The Committee received the Annual Audit Letter for the Year Ended 31 March 2018 from the Council's External Auditor Ernst & Young.

Helen Thompson, Associate Partner Ernst & Young attended the meeting and introduced the Annual Audit Letter.
The Committee were advised that:

- The Annual Audit Letter was the final report that concluded the audit procedures for the year ended 31 March 2018.
- The auditor had issued an unqualified opinion on the financial statements for 2017/18 and an unqualified opinion on Value for Money.
- No objections had been received from members of the public.
- The Audit had been closed and the Audit Certificate had been issued on the day of the deadline which was 31 July 2018.
- 15% of audits across all Councils had not met the deadline of 31 July 2018. The efforts of Bracknell Forest Council in working to meet the deadline were acknowledged and credited.
- Work was still progressing with the 2017/18 assurance review into housing benefit subsidy. The work itself was completed and the external auditor was

about to issue the draft qualification letter. The report would be submitted before 30 November 2018.

Helen Thompson, Associate Partner Ernst & Young advised the Committee that this was her final meeting as the Bracknell Forest Council Governance and Audit Committee Engagement Lead. Andrew Brittain had been appointed as her successor as the Committee's Engagement Lead.
Helen gave thanks to the committee for all their support over the last 7 years.

The Chairman thanked Helen for her service to the Committee.

In response to questions, Helen Thompson, Associate Partner Ernst & Young advised the Committee that:

- The report on housing benefit subsidy would be provided to the Committee in January 2019. It was rare to not find some form of error in this type of report due to the complex and changing nature of the housing benefit system. Bracknell Forest had significantly improved the processing of housing benefit internally and the level of errors had reduced significantly, but the housing benefit system was more complex as a result of changes to the benefit system. Overall, the housing benefit work was done well by the team at Bracknell Forest and there was nothing specifically that warranted concern.
- The number of qualified value for money conclusions was slightly increasing overall which was a reflection of the challenging and difficult financial environment Councils were operating in.
- Bracknell Forest had not received qualified financial statements or an adverse value for money opinion during her tenure.

Members of the Committee thanked the Director: Finance and his team for their diligence.

21. **Interim Internal Audit Report April to September 2018**

Sally Hendrick, Head of Audit and Risk Management attended the meeting to present the Committee with the Internal Audit Interim Report April to September 2018 which provided a summary of internal audit activity during that period.
The Committee were advised that:

- The report was the first report for 2018/19
- Progress was being made in delivering the audit plan that was agreed in March 2018.
- This report looked at the assurances found and the work to date.

Sally Hendrick, Head of Audit and Risk Management drew the Committee's attention to:

- Section 3. Summary of Internal Audits to Date, point 3.2 which described the progress on the audits and the performance to date.
- Section 3. Summary of Internal Audits to Date, point 3.4 Major Control Issues, which described audit areas where major weaknesses had been identified.

In response to questions from Members, Sally Hendrick, Head of Audit and Risk Management advised the Committee that:

- The audit process had identified that in 2017/18 and into 2018/19 there had been some weakening in financial control within the Council including debt management issues that were largely outside of the main corporate team, for example housing rents and deposits which are Housing managed themselves. In particular,

- There was a need to make improvements in debt management processes around the Council. Debtors were normally audited with a focus on corporate finance but it had been decided to conduct a Council wide audit of debt management processes to identify particular areas of weakness in debt recovery procedures. This was an ongoing process. The findings of this audit would be fed back to the Committee in January 2019.
- The Major Control Issues Audits had all been conducted since April 2018 with the exception of the Adult Social Care Pathway which was audited in Q4 2017/18 but had not been reported in June 2018.

In response to a Member question relating to Council Wide Audits and Officers' Expenses IT system, Stuart McKellar, Director: Finance assured the Committee that controls were in place whilst the new IT system was updated and tested.

The Chairman thanked Sally Hendrick, Head of Audit and Risk Management for the Interim Internal Audit Report.

RESOLVED that the Head of Audit and Risk Management report that provides a summary of Internal Audit Activity during the period April to September 2018 be noted.

22. **Review of the Constitution**

The Committee reviewed the recommended changes to the Constitution for approval by the Council.

The Chairman of the Governance and Audit Committee advised the Committee that no legal support was available during consideration of this item due to the absence of the Borough Solicitor following a medical procedure.

The changes to the Constitution were necessary to reflect the changes in the Council's organisational structure to match the changes in personnel and executive structures now in place following the transformation process.

Following a request for clarity from Members, Stuart McKellar, Director: Finance clarified that within the monitoring officer section, although specific mention of a Section 1-51 Officer is not mentioned, the Chief Finance Officer is referred to which is the same statutory role.

It was **RECOMMENDED** that Council:

1.1 Adopt the changes to Part 1/Section 8.1(Officer roles and Statutory Officer Functions) set out in Appendix A to the agenda report.

1.2 Adopt the changes to Part 2/Section 4 (Employment Committee Terms of Reference) set out in Appendix B to the agenda report.

1.3 Adopt the changes to Part 2/Section 6 (Powers exercisable by Officers) set out in Appendix C to the agenda report.

1.4 Agree to the Borough Solicitor making such other consequential changes as are necessary to ensure that the constitution properly reflects the reshaped senior management structure.

23. **Governance: Bracknell Forest Council and the Voluntary Sector**

The Committee reviewed the Council's future role in the governance of voluntary sector organisations that may or not be in receipt of revenue grant aid from the Authority.

The Chairman of the Governance and Audit Committee advised the Committee an earlier report had been withdrawn from the Committee meeting on 27 June 2018 as it had required changes. The changes had been made and the report was ready for consideration by the Committee.

The Committee discussed the recommendations. Members felt that:

- Residents valued the Councils input within the voluntary sector and that Council representation demonstrated to residents that the Council cared and took voluntary bodies seriously.
- It was important that Members supported their community, and the recommendations in the report provided transparency to demonstrate that Councillors are not running voluntary organisations but are supporting them.
- The recommendations do not represent a removal or pulling back of support for the voluntary sector.
- It is important that representatives of the Council cannot hold positions of responsibility. The recommendations sought to avoid situations where there could/would be a conflict of interest.

The Vice Chairman of the Committee advised the Committee of some corrections to the report which should be recorded.

5.7 Age Concern.
It should be recorded that Councillor Cliff Thompson resigned as a trustee of Age Concern on 21 August 2018.
It should be recorded that Age Concern has no Council Trustee.

5.5 Shopmobility
It should be recorded that Councillor Mattick and Councillor Mrs Angell have both resigned their roles at Shopmobility. Councillor Mattick had been an observer and Councillor Mrs Angell was a Director.

The Chairman requested that a press release be prepared to describe the changes in more detail to the voluntary sector.

The Committee considered the recommendations set out within the report. Following debate it was proposed that there should be minor changes made to recommendation 2.2 and 2.4.

These changes were:

2.2 - The insertion of the word "voting" into the last line of the text after the words "Director or" but before the word "member"

2.4 - The insertion of the word "a" into the first line of the text after the word "is" but before the word "nominated"
- The deletion of the words "as a" on the first line of text after the word "nominated" but before the word "representative"
- The insertion of the words "hold or" on the second line of the text after the words "they may not" but before "subsequently"

The Committee voted on the amended recommendations and it was **RESOLVED** that:

2.1 That the Council continues to support the voluntary sector and recognises the important role Members play in its continued success;

2.2 That with immediate effect the Council no longer agrees nominations to any voluntary sector organisation where that role is as a Trustee, Director or voting member of the management board/committee

2.3 The Council may continue to nominate Members to voluntary sector organisations as representatives in a non management capacity with no role in the governance of the organisation. Such roles will be limited to Members being nominated to act as conduits for communication between the Council and the organisation or as observers at its meetings.

2.4 Where a Member is a nominated representative pursuant to 2.3 above, they may not hold or subsequently accept a role on the organisation's board as a Trustee/Director or in any other management capacity such as Treasurer.

Nb: The term "Voluntary Sector Organisations" for the purposes of this report expressly excludes Council owned companies, all maintained, VA and VC schools, academies and local authority consortiums. For the avoidance of doubt representation by Members on school governing bodies is therefore not affected by this report's recommendations.

CHAIRMAN

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**TO: GOVERNANCE AND AUDIT COMMITTEE
30 JANUARY 2019**

**TREASURY MANAGEMENT REPORT 2019/20 AND 2018/19 MID-YEAR REVIEW
(Director of Finance)**

1 PURPOSE OF DECISION

1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering maximising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the longer term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.4 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.

1.5 This report seeks to achieve both these requirements of updating Members on progress in 2018/19 and to review the Treasury Management Report for 2019/20.

2 RECOMMENDATIONS

2.1 That the Committee consider and review the Mid-Year Review Report.

2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.

2.3 That the Committee review the Treasury Management Report for 2019/20 prior to its approval by Council and endorse the changes outlined in paragraph 5.15

3 REASONS FOR RECOMMENDATIONS

3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

5 SUPPORTING INFORMATION

Mid-Year Review

5.1 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2018/19
- A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2018/19
- A review of compliance with Treasury and Prudential Limits for 2018/19

Economic Update

5.2 After weak economic growth of only 0.1% in quarter one, growth picked up to 0.4% in quarter 2 and to 0.6% in quarter 3. However, uncertainties over Brexit look likely to cause growth to have weakened again in quarter four. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August, it is little surprise that they have abstained from any further increases since then. There is unlikely to be any further action from the MPC until the uncertainties over Brexit clear. In the event of a disorderly exit, the MPC have said that rates could go up or down, though it is probably much more likely to be down so as to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.3%, (excluding bonuses), in the three months to October. The main issue causing this is a lack of suitably skilled people due to the continuing increase in total employment and unemployment being near to 43 year lows. Correspondingly, the total level of vacancies has risen to new highs.

5.3 As for CPI inflation, this has been on a falling trend, reaching 2.3% in November. However, in the November Bank of England Inflation Report, the latest forecast for inflation over the two year time horizon was raised to being marginally above the MPC's target of 2%, indicating a slight build up in inflationary pressures. The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between to two figures in now around 1%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

5.4 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. If, however, the UK faces a general election in 2019, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

5.5 After the August increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has since then put any further action on hold, probably until such time as the fog of Brexit clears and there is some degree of certainty of what the UK will be heading into. It is particularly unlikely that the MPC would increase Bank Rate in February 2019 ahead of the deadline in March for Brexit, if no agreement on Brexit has been reached by then. The comments in this report are based on a central assumption that there is an agreement on a reasonable form of Brexit. In that case, then we think that the MPC could return to increasing Bank Rate in May 2019 but then hold fire again until February 2020. However, this is obviously based on making huge assumptions which could be confounded. In the event of a disorderly Brexit, then cuts in Bank Rate could well be the next move.

Treasury Management Strategy Statement Review

5.6 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Council on 24th February 2018. There are no policy changes to the TMSS.

Review of Investment and Debt Portfolio 2018/19

5.7 The Council held £12.197m of investments as at 31 December 2018 and the investment portfolio yield for the first nine months of the year is 0.65% against a benchmark (Local Authority 7-Day Rate) of 0.16%.

Investment	Maturity	Amount (£'000)	Rate (%)
Money Market Funds			
Aberdeen	1 Day	497	0.754
Black Rock	1 Day	2,800	0.699
Federated	1 Day	2,000	0.764
Federated Cash Plus	2 Day	4,967	0.852
Goldman Sachs	1 Day	50	0.681
Deutsche	1 Day	50	0.643
Total Investments		**10,364**	

5.8 The 2018/19 interest budget assumed that an average interest rate of 0.5% would be earned on the Council's investment portfolio. As such the interest earned on the years surplus cash should be in line with target

5.9 As at 31 December 2018 the Council's debt portfolio was as follows

Short Term Market Loans

Counterparty	Amount £	Rate	Start Date	Maturity Date
Derby	5,000,000	0.60%	16/07/2018	16/01/2019
St Helens	5,000,000	0.90%	20/08/2018	20/05/2019
Durham CC	5,000,000	0.90%	28/08/2018	30/04/2019
Somerset CC	3,000,000	0.95%	17/12/2018	17/06/2019
South Derbyshire	2,000,000	0.90%	20/12/2018	20/06/2019
	20,000,000			

PWLB Loans

PWLB	Amount	Rate	Start Date	Maturity Date
PWLB	10,000,000	2.60%	09/02/2017	31/03/2062
PWLB	10,000,000	2.60%	09/02/2017	31/03/2066
PWLB	10,000,000	2.42%	20/06/2017	31/03/2063
PWLB	10,000,000	2.41%	20/06/2017	31/03/2064
PWLB	20,000,000	1.85%	21/11/2017	21/11/2024

PWLB	10,000,000	2.50%	21/11/2017	21/11/2062
PWLB	10,000,000	2.14%	03/12/2018	03/12/2028
	80,000,000			

Compliance with Treasury and Prudential Limits for 2018/19

5.10 The Director of Finance can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2018/19 and no changes to these limits are proposed for the remaining 3 months.

Treasury Management Report 2019/20

5.11 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.

5.12 The attached Treasury Management Report 2019/20 (Annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 19 December 2017 and outlines the Council's Prudential Indicators for 2018/19 to 2020/21 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 28 February 2018.

5.13 Since publication of the report further advice has been received from the Council's Treasury Management advisers regarding the Minimum Revenue Provision (MRP) policy adopted by the Council. The policy is set out and explained in Annex A(iii) and was updated to reflect the guidance issued by the Government in relation to assets purchased as investment properties. Prior to the new guidance issued in 2018 there was no requirement to set aside MRP on such assets, however in light of recent move by local authorities into this area of investment the Government wished to see local authorities address the risk associated with such expenditure.

5.14 This Council has prioritised risk management in defining its policy on commercial property investment however the Director of Finance, following advice taken from both the Council's Treasury Advisers and legal advice from Counsel, decided to introduce a partial deferral method for MRP as set out in the Policy attached to this report.

5.15 However, following further advice from our Treasury Advisers we believe this set-aside should be retained but under the auspices of Voluntary Revenue Provision (VRP) rather than MRP – providing additional flexibility to the Council to reverse this set-aside at a future date should the assets be sold or the value of the assets change. As such the MRP policy will be revised to implement this change and the changes are identified in the Annex to this report.

6 BOROUGH SOLICITOR'S COMMENTS

6.1 None.

7 BOROUGH TREASURER'S COMMENTS

7.1 The financial implications are contained within the report.

8 EQUALITIES IMPACT ASSESSMENT

8.1 None.

9 STRATEGIC RISK MANAGEMENT ISSUES

9.1 The Treasury Management Report deals directly with the strategic management of risk associated with the Council's treasury management activities

10 PRINCIPAL GROUPS CONSULTED

10.1 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in December.

11 BACKGROUND PAPERS

11.1 None

12 CONTACT FOR FURTHER INFORMATION

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TREASURY MANAGEMENT REPORT

1.1 The Local Government Act 2003 requires the Council to "have regard to" the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.5 CIPFA defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.6 Revised reporting is required for 2019/20 due to revisions of the Ministry of Housing, Communities and Local Government's (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:
- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.7 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

1.8 The Treasury Management Strategy for 2019/20 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;

- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

The Capital Prudential Indicators 2019/20 – 2021/22

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems. Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity and as such the Treasury Management Strategy for 2019/20 to 2021/22 complements these indicators.

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

The Capital Expenditure Plans
The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants, or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to external factors such as the impact of the wider economy.

The Council is asked to approve the summary capital expenditure projections below and to note the out-turn position reported to the Executive and approved on the 17th July 2018.

Capital Expenditure	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Capital Expenditure	25,337	4,780	4,580
Commercial Activities	0	0	0
Financed by:			
Capital receipts	5,000	3,000	3,000
Capital grants & Contributions	11,586	2,445	1,475
Net financing need for the year	**8,751**	**-665**	**-865**

The Council's Borrowing Need (the Capital Financing Requirement)
The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Due to the nature of some of the capital expenditure identified above (ie grant), an element will be immediately impaired or will not qualify as capital expenditure for CFR purposes. As such the net financing figure above may differ from that used in the CFR calculation. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP). No additional voluntary payments are planned.

The Council is asked to approve the CFR projections below:

£m	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Financing Requirement					
CFR – services	127,740	147,492	160,342	176,584	175,559
CFR - Commercial activities/ non-financial investments	**58,381**	**89,940**	**89,609**	**89,270**	**88,924**
Total CFR	186,121	237,432	249,951	265,854	264,483
Movement in CFR	**74,413**	**51,311**	**12,519**	**15,903**	**-1,372**

Movement in CFR represented by					
Net financing need for the year (above)	73,208	49,618	10,150	13,118	-4,578
Less MRP/VRP and other financing movements	1205	1,693	2,369	2,785	3,207
Movement in CFR	**74,413**	**51,311**	**12,519**	**15,903**	**-1,372**

 # 2018/19 includes impact of carry-forward from 2018/19 in addition to 2019/20 Capital Programme

CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Statement attached in Annex A(ii)

Minimum Revenue Provision (MRP) Policy Statement

The concept of the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

Department for Local Government & Communities (DCLG) issued regulations in 2008 which require a local authority to calculate for the current financial year an amount of MRP which it considers "prudent". The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or in the case of borrowing supported by government, reasonably commensurate with the period implicit in the determination of the grant. The Council can choose to charge more than the minimum.

Further statutory guidance on MRP was issued by Government on 2 February 2018, which largely becomes effective from 1 April 2019. The exception related to the section allowing local authorities to change their approach to calculating MRP at any time, which took effect immediately. A key part of the updated guidance clarified that the duty to make MRP extends to investment properties where their acquisition has been partially or fully funded by an increase in borrowing or credit arrangements.

In order to minimise the impact on the revenue budget whilst ensuring that prudent provision is made for repayment of borrowing, the Council moved from the equal instalments method to the annuity method in calculating the annual charge over the estimated life of the asset from 1st April 2017. A variety of options are provided to councils under the regulations and guidance, so long as there is a prudent provision. Having sought advice from Counsel on permissible approaches following the revised guidance, the Director: Finance recommends that Council approves the following MRP Statement.

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

  Based on CFR – MRP will be based on the CFR. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases but excluding CPIS expenditure) the MRP policy will be:

  Asset life method - MRP will be based on the annuity basis, in accordance with the regulations. Repayments included in annual PFI or finance leases are applied as MRP.

- For assets purchased under the Commercial Property Investment Strategy (CPIS) the ~~M~~VRP policy will be:

  Partial deferral method – ~~MRP~~ VRP will be charged at 10% of the property value over a 15 year period to reflect a realistic level of value risk, on the basis that the properties will typically be held for a period of no greater than around 10 to 20 years.

- For all other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future related receipts (including loans to companies wholly or partly owned by the Council) and there is a strong likelihood that this will happen, the MRP policy will be:

  Deferral method - MRP will be deferred and the liability repaid through future capital receipts from disposing of the asset or loan repayments from third parties

There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.

The actual charge made in the year will be based on applying the above policy to the previous year's actual capital expenditure and funding decisions. Therefore the 2019/20 charge will be based on 2018/19 capital out-turn.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2018 the total VRP overpayments were £0m but a VRP payment is expected to be paid in 2018/19 and in future years~~.~~

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The concept of the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP)

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  Partial deferral method – MRP will be charged at 10% of the property value over a 15 year period to reflect a realistic level of value risk, on the basis that the properties will typically be held for a period of no greater than around 10 to 20 years.

- For all other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future related receipts (including loans to companies wholly or partly owned by the Council) and there is a strong likelihood that this will happen, the MRP policy will be:

  Deferral method - MRP will be deferred and the liability repaid through future capital receipts from disposing of the asset or loan repayments from third parties

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TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex A(i) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice - 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This Council has adopted the revised Code.

As a result of adopting the Code the Council also adopted a Treasury Policy Statement. This adoption is the requirement of one of the prudential indicators.

The Code of Practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

The Council's debt and investment projections;
The Council's estimates and limits on future debt levels;
The expected movement in interest rates;
The Council's borrowing and investment strategies;
Treasury performance indicators;
Specific limits on treasury activities;

Debt and Investment Projections 2019/20 – 2021/22
The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed.

	2019/20 Estimated	2020/21 Estimated	2021/22 Estimated
External Debt			
Debt at 31 March	£120m	£125m	£125m
Investments			
Investments at 31 March	£10m	£10m	£10m

Current Portfolio
The overall treasury management portfolio as at 31 March 2018 and for the position as at 31st October are shown below for both borrowing and investments

	Actual	Actual	Current	Current
	31/03/18	**31/03/18**	**31/10/18**	**31/10/18**
Treasury Investments	**£000**	**%**	**£000**	**%**
Money Market Funds	16,994	100	15,444	100
External Borrowing	**£000**	**%**	**£000**	**%**
Local Authorities	30,000	30%	20,000	22%
PWLB	70,000	70%	70,000	78%
Net Treasury Borrowing	83,006		74,556	

Limits to Borrowing Activity
Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Borough Treasurer reports that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

The Authorised Limit for External Debt
A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised limit	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Borrowing	£260m	£270m	£270m
Other long term liabilities	£20m	£18m	£17m
Total	£280m	£288m	£287m

Operational Boundary for External Debt
The Authority is also recommended to approve the Operational Boundary for external debt for the same period. The proposed Operational Boundary is based on the same

estimates as the Authorised Limit but reflects directly the estimate of the most likely but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements.

Operational Boundary	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Borrowing	£255m	£260m	£260m
Other long term liabilities	£20m	£18m	£17m
Total	£275m	£278m	£277m

Borrowing in advance of need.
The Director of Finance may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Director of Finance will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

Expected Movement in Interest Rates

The Council's treasury advisor, Link Asset Services has provided the following forecast:

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%
12 Month LIBID	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%	3.60%	3.70%
50yr PWLB Rate	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.40%	3.50%

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. It is unlikely that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Similarly, the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, the UK has been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets.

In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US 10 year bond Treasury yields rise above 3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

Borrowing Strategy 2018/19

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Executive at the next available opportunity.

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Debt rescheduling

As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Executive, at the earliest meeting following its action.

Investment Strategy 2019/20 – 2021/22

Investment Policy
The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. Lending and transaction limits, (amounts and maturity), for each counterparty will be set through applying the matrix table shown under the Council's creditworthiness policy

6. This authority has engaged external consultants, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

7. All investments will be denominated in sterling.

8. As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. The MHCLG are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. Members will be updated when the result of this consultation is known

Creditworthiness policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following maturities .

Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks	orange	£7m	1 yr
Banks – part nationalised	blue	£7m	1 yr
Banks	red	£7m	6 months
Banks	green	£7m	100 days
Banks	No colour	£0m	0 days
Debt Management Account Deposit Facility	AAA	£7m	6 months
Local authorities	n/a	£7m	1 yr
Money Market Funds (CNAV,LVNAV & VNAV)	AAA	£7m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£7m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£7m	liquid

The creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1 There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored in real time. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded however the current investment limits for 2019/20 restrain all investments to less than 1 year. Any amendment to this strategy will require the credit-criteria to be amended to include a long-term rating. This will be addressed through the formal approval by Council of a revised Treasury Management Strategy and Annual Investment Strategy.

Country and Sector Considerations
Due care will be taken to consider the country, group and sector exposure of the Council's investments. The current investment strategy limits all investments to UK Banks, Building Societies and Local Authorities, in addition to Sterling denominated AAA Money Market Funds.

Economic Investment Considerations

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. The criteria for choosing counterparties set out above provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Borough Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (a Government body which accepts local authority deposits), Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements
Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% change in interest rates to the estimated treasury management costs for next year. However as all borrowing is fixed any increase in rates will only impact on new borrowing.

	2019/20 Estimated + 1%	**2019/20 Estimated - 1%**
Revenue Budgets	**£'000**	**£'000**
Borrowing costs	1,000	1,000

Treasury Management Limits on Activity
There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end.

The Council is asked to approve the limits:

	2019/20	2020/20	2020/21
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	£280m	£288m	£287m
Limits on variable interest rates based on net debt	£280m	£288m	£287m
Maturity Structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£m 0	£m 0	£m 0

Performance Indicators
The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. For 2019/20 the relevant benchmark will relate only to investments and will be the "7 Day LIBID Rate". The results of these indicators will be reported in the Treasury Annual Report.

Treasury Management Advisers
The Council uses Link Asset Services as its treasury management consultants. The Council recognises that responsibility for treasury management decision remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

Member and Officer Training
The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Following the nomination of the Governance and Audit Committee to examine and assess the effectiveness of the Treasury Management Strategy and Policies, initial training was provided and additional training was has been undertaken as necessary. Officer training is carried out in accordance with best practice and outlined in TMP 10 Training and Qualifications to ensure that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	In-house	364 Days
Term deposits with the UK government or with Local Authority in England, Wales, Scotland or Northern Ireland with maturities up to 364 Days	No	Yes	High security although LAs not credit rated.	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 364 Days	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) : up to 364 Days. *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days
Gilts : up to 364 Days	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Money Market Funds CNAV, LVNAV, and VNAV *These funds do not have any maturity date*	No	Yes	*AAA Rating by Fitch, Moodys or S&P*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	1 year in aggregate
Commercial paper *[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]* *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	1 year

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Circumstance of use**	**Maximum maturity of investment**
Deposits with Authority's Banker where credit rating has dropped below minimum criteria	Where the Council's bank no longer meets the high credit rating criteria set out in the Investment Strategy the Council has little alternative but to continue using them, and in some instances it may be necessary to place deposits with them, these deposits should be of a very short duration thus limiting the Council to daylight exposure only (i.e. flow of funds in and out during the day, or overnight exposure).	No	Yes	n/a	In-House	*364 Days*
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*5 Years*
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	*5 years*

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating?**	**Circumstance of use**	**Maximum maturity of investment**
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*5 years*
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality. (ii)Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	*10 years including but also including the 10 year benchmark gilt*

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Circumstance of use**	**Maximum maturity of investment**
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	*5 years*
Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution : any maturity	(A) Credit standing of parent will determine ultimate extent of credit risk	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*1 year*

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TO: GOVERNANCE AND AUDIT COMMITTEE
30 JANUARY 2019

EXTERNAL AUDIT PLAN
DIRECTOR: FINANCE

1 PURPOSE OF REPORT

1.1 To enable the Council's External Auditor to present to the Committee the Audit plan covering the 2018/19 financial year.

2 RECOMMENDATION

2.1 The Committee notes the Audit plan for the 2018/19 financial year.

3 REASONS FOR RECOMMENDATION(S)

3.1 To ensure that the Committee is aware of the External Audit approach for the year 2018/19.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 None available.

5 SUPPORTING INFORMATION

5.1 The Council's External Auditor Ernst and Young has provided the Committee a report setting out its planned approach to the annual audit for 2018/19. Andrew Brittain, Director, Ernst and Young will attend the meeting to present the report and answer questions.

6 BOROUGH SOLICITOR'S COMMENTS

6.1 Nothing to add to the report.

7 BOROUGH TREASURER'S COMMENTS

7.1 Nothing to add to the report.

8 OTHER OFFICER'S COMMENTS

8.1 not applicable.

9 EQUALITIES IMPACT ASSESSMENT

9.1 Not applicable

10 STRATEGIC RISK MANAGEMENT ISSUES

10.1 None arising from this report.

11 PRINCIPAL GROUPS CONSULTED

11.1 Not applicable

12 BACKGROUND PAPERS

12.1 BFC Audit Planning Report – Ernst & Young Report

13 CONTACT FOR FURTHER INFORMATION

Stuart McKellar, Borough Treasurer - 01344 352180
Stuart.mckellar@bracknell-forest.gov.uk

Bracknell Forest Council

Audit planning report

Year ended 31 March 2019

January 2019

Building a better working world

18 January 2019

Governance and Audit Committee,
Time Square,
Market Street,
Bracknell,
Berkshire,
RG12 1JD.

Dear Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Governance & Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Governance & Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 30 January 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Governance & Audit Committee and management of Bracknell Forest Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance & Audit Committee, and management of Bracknell Forest Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance & Audit Committee and management of Bracknell Forest Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Governance & Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from prior year assessment	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus.	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus.	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Pension Liability Valuation	Significant	Changed from inherent risk to significant risk	The Council's pension fund deficit is a material and sensitive item. Small changes in assumptions when valuing it can have a material impact on the financial statements. The Code requires the Council to disclose this net liability on the Council's Balance Sheet. At 31 March 2018 this totalled £276.125m. We have reflected on the significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size in the current uncertain economic environment, and classified this as a significant risk.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus.	The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
NDR appeals provision	Inherent risk	Higher focus this year.	The NDR Appeals Provision is a judgemental balance in the Council's financial statements which requires a number of assumptions. We need to revisit the assumptions underpinning the NDR provision for the 2018/19 accounts based on the most up to date information available.
PFI Estimates	Inherent risk	Higher focus this year.	PFI is a complex area and we have commissioned a detailed review of the RE3 Waste PFI arrangements for Bracknell, Reading and Wokingham Councils by our PFI specialist. This will include a review of the assumptions used in the RE3 PFI accounting model, comment on local adjustments made to the model, if any, and review the planned entries and disclosures for the Council's 18/19 accounts.
New Accounting Standards	Inherent risk	New risk identified this year.	IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) apply from 1 April 2018 and IFRS 16 (Leases) may apply from 1 April 2019. We will assess the impact of these new standards to determine whether they have been appropriately implemented by the Council.

Overview of our 2018/19 audit strategy

Materiality

Planning materiality

£5.553m

Materiality has been set at £5.553m, which represents 2% of the prior years gross expenditure on provision of services.

Performance materiality

£4.165m

Performance materiality has been set at £4.156m, which represents 75% of planning materiality.

Audit differences

£0.278m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £278k. Other misstatements identified will be communicated to the extent that they merit the attention of the Governance & Audit Committee.

Overview of our 2018/19 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Bracknell Forest Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Audit team

Our audit team.

Andrew Brittain, Associate Partner

- Andrew is an Associate Partner within the UK&I Assurance practice, with over 20 years experience of UK audits, including 6 years local government.
- He is a member of ACA (Association of Chartered Accountants) and will be the key contact for the Governance & Audit Committee and chief officers.

Justine Thorpe, Manager

- Justine is a Manager within the UK&I Assurance practice, with over 20 years experience of UK LG audits.
- She is a member of CIPFA (Chartered Institute of Public Accountancy) and will be the key contact for your Finance Team.

02 Audit risks

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error

Financial statement impact

Misstatements that occur in relation to the risk of fraud could affect the income and expenditure accounts.

What is the risk?

As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.

What will we do?

Our approach will cover:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

In addition to our overall response, we consider where these risk may manifest themselves and identify separate fraud risks as necessary below.

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

We are focusing our testing on the risk of incorrectly classifying revenue expenditure as capital additions. This would decrease the net expenditure from the general fund, and increase the value of non-current assets.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriately capitalisation of revenue expenditure to improve the financial position of the general fund.

What will we do?

Our approach will focus on:

- For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- We will extended our testing of items capitalized in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- Journal testing – we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Pension Net Liability Valuation

Financial statement impact

The Council's pension fund deficit is a material and sensitive item. Small changes in assumptions when valuing it can have a material impact on the financial statements. The Code requires the Council to disclose this net liability on the Council's Balance Sheet.

We have reflected on the significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size, in the current uncertain economic environment, and classified this as a significant risk.

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Berkshire County Council Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead Unitary Authority (RBWM).

The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £276.125m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to RBWM. Accounting for this scheme involves significant estimation and judgement and therefore management engages the actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What will we do?

We will:

- liaise with the auditors of the Berkshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Bracknell Forest Council.
- assess the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) represents a significant balance, at £525.956m, in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: • consider the work performed by the Council's valuer (Wilks, Head and Eve) including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • review the internal challenge of WHE's valuations by the Council's surveyor, Steve Booth; • sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by WHE; • consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. • review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; and • test accounting entries have been correctly processed in the financial statements.
NDR Appeals Provision The Non Domestic Rates Appeals Provision is a judgemental balance in the Council's financial statements which requires a number of assumptions. The movement of the NDR Appeals Provision in 2017/18 was significant from an opening balance of £5.694 million to a closing balance of £7.592 million at 31 March 2018. The provision for NDR for 2017/18 was increased to reflect the latest information, at 31 March 2018, with the position difficult to predict following the 2017 valuation and the Valuation Office Agency's (VOA) Check, Challenge and Appeal process. There was an added complication, for 2017/18, where the Council made a reasonable prudent 10% provision (rather than the 4.7% recommended by central government) for one significant business. We need to revisit the assumptions underpinning the NDR provision for the 2018/19 accounts based on the most up to date information available.	We will: • review the calculation of the provision for accuracy; • review the assumptions used in the calculation based on the latest information in 2018/19; • consider the Council's use of its expert, Rates Plus, involved in the calculation; • ensure the Council has amended the provision for any Business Rate reliefs awarded in 2017/18.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<u>PFI Accounting</u> The Council has one waste PFI arrangement with the Waste Recycling Group RE3 Limited. This is a joint PFI contract (entered into in 2006/07) with Reading and Wokingham Councils for the disposal of waste. The total value of the contract is estimated to be £467 million as at 31 March 2018, to be shared between the Councils based on relative throughput. Actual payments are based on the contractor's performance as well as that of the individual councils in waste collection. Estimated payments to be made by Bracknell Forest Council under the contract are £127.767 million over the next 15 years of the contract. As part of the contract, the contractor built a transfer station, materials recycling facility, civic amenity site and offices. The Council's share of the assets, valued at £6.9 million as at 31 March 2018, are recognised as Property, Plant and Equipment on the Council's Balance Sheet. The liability resulting from the contract, at the end of March 2018, was reported as £5.189 million.	PFI is a complex area and we have commissioned a detailed review of the RE3 arrangements, for the three councils involved, namely Bracknell, Reading and Wokingham Councils, Our work, by our PFI specialist, will: • include a review of the assumptions used in the RE3 PFI accounting model; • comment on local adjustments, if any, by Bracknell Forest Council, made to the output from the RE3 model held by the host council, Reading Borough Council; • review the planned entries and disclosures for the Council's 18/19 accounts and ensure that they are consistently reported across the three councils.
<u>IFRS 9 Financial instruments</u> This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial instruments. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9. Central government has indicated following consultation that statutory overrides for certain classes of financial assets will be put in place, however until these are confirmed there remains some uncertainty on the full accounting treatment. The Council is yet to undertake and document its assessment of the impact of IFRS9.	We will: • assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • consider the classification and valuation of financial instrument assets; • review the implementation of the new expected credit loss model impairment calculations for assets; and • check additional disclosure requirements for compliance with the CIPFA Code.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<u>IFRS 15 Revenue from contracts with customers</u> This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue may change and new disclosure requirements introduced. The Council is yet to undertake and document its assessment of the impact of IFRS15.	We will: • Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. • Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • Check additional disclosure requirements.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2018/19 this is based on the overall evaluation criterion: “In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

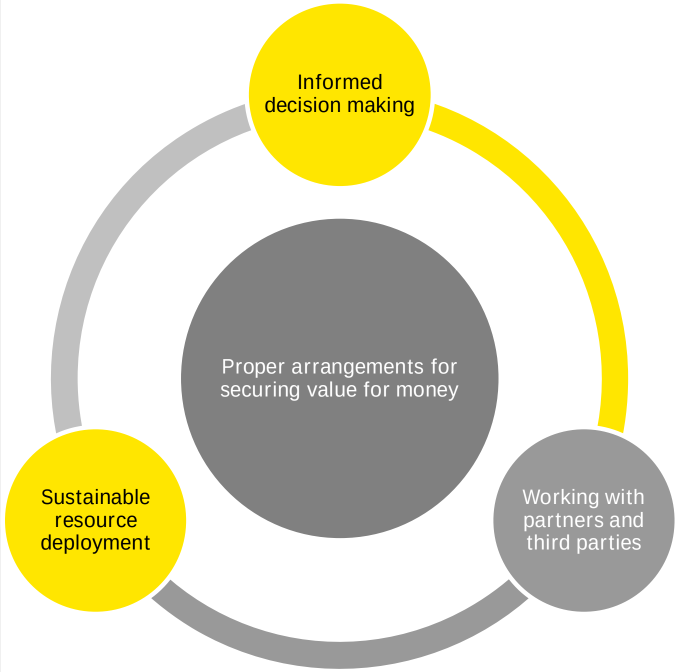
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as: “A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has, therefore, considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At the time of our planning, this has resulted in the following two significant risks relevant to our value for money conclusion:

- Delivery of a sustainable medium term financial plan; and
- Commercialisation and the purchase of investment properties



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Delivery of a robust Medium Term Financial Plan (MTFP)		
In the Council's four year Medium Term Financial Plan (MTFP) , reported to Cabinet in February 2018, the Council set a balanced budget for 2018/19. However, the cumulative shortfall of the MTFP through to 2020/21 is £9.4m, of which a £6m gap is predicted for 2020/21. The Council has a strategy in place to resolve the shortfall which is driven by commercial investment and transformational projects. The Council's transformational change programme is critical in enabling the Council to delivering the level of savings needed for a sustainable financial future, Progress is being made in the achievement of some £10.4 million of transformation savings and some £3.8 million of efficiency savings over the period of the MTFP until 2021/2022. There is also the planned "managed use" of the Council's Future Funding Reserve to smooth the impact of the Government planned changes to local government funding in 2020/21. £1 million of reserves was planned to be used in the Council's 2016 – 2020 Efficiency Plan as part of setting a balanced budget for 2019/20. However, there is significant demand increases for Children's Social Care causing financial pressure in 18/19 and in future years which will require a higher level of savings and additional income than originally predicted to balance the 2019/20 budget. The Council's commercial programme is being accelerated in order to deliver its planned target of £3 million of income generation by 2019/20. The current focus of the Council's Corporate Management Team is, therefore, its need to review its prioritisation of transformation and enabling resources to continue its successful delivery of change. We will review the Council's Medium Term Financial Plan to assess whether the financial planning in place is sufficient to position the Council on a sustainable financial footing in the medium term.	Deploy resources in a sustainable manner	We will: • assess the key assumptions made within the annual budget and MTFP; • review the progress made in identifying savings for 2019/20 and beyond; • assess the effectiveness of project management by the Transformation Board in overseeing transformational projects and income generation opportunities; • review the Council's business planning process for both generating savings and also undertaking commercial projects;

Value for Money Risks

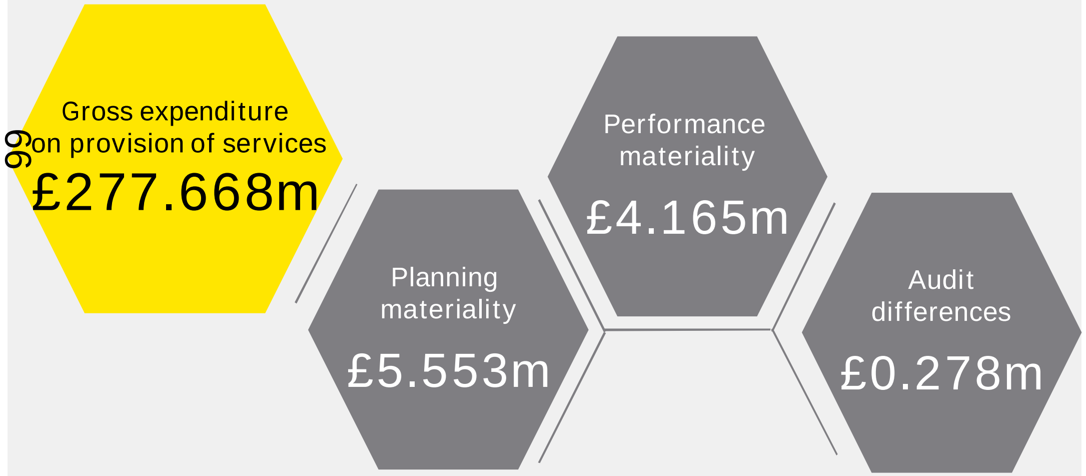
What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Commercialisation and the purchase of investment properties		
By November 2017, one year after the Council approved its Commercial Property Investment Strategy (CPIS), the Council has completed on the purchase of 5 properties at a total cost of £70 million. However the Council's CPIS may not deliver the target £3 million income by 2019/20 and therefore £20 million has been released from the 2018/19 capital programme to accelerate delivery of the CPIS programme which now totals £90 million. The Council uses an evaluation tool, to assist its Executive Committee in reviewing each investment opportunity, showing which parameters are acceptable for consideration and those which are not. It appears that all investments are subject to a full external due diligence process, which includes a building condition surveys including all M&E, independent RICS valuations and a legal audit as well as officer site inspection and market consideration. Any items considered less than satisfactory are reported. The Prudential Code, issued by CIPFA has always contained a statement (paragraph 46) that local authorities should not borrow more than, or in advance of, their needs purely in order to profit from the investment of the extra sums borrowed. However, paragraph 47 of the Statutory Guidance also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management. The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order. We will review the Council's arrangements for the purchase of investment properties to ensure that they are adequate in terms of providing value for money and comply with proper governance and risk management arrangements.	Deploy resources in a sustainable manner	We will review: • The underlying rationale for the Council's proposed investments and clarity on how this sits with the Council's strategy and objectives; • Legal powers and other advice obtained e.g. tax, investment decisions; • Compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code; • The Council's MRP policy; • Clarity of governance arrangements for the Council's decision making with regard to their investment property purchases; • Recognition and reporting of risks in the Council's strategic risk register. We will also consider the extent to which the Council has demonstrated the key Prudential Code considerations: • Existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality; • Demonstrating value for money in borrowing decisions • Security of borrowed funds; • Extent of borrowing for investments and borrowing overall • The nature of the investment; • Risks involved, including falling capital values, borrowing costs, illiquidity of assets.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £5.553m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Governance & Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £4.165m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Governance & Audit Committee, or are important from a qualitative perspective.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards
- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code
- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- identifying and understanding the key processes and internal controls; and
- substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The area where either EY or third party specialists provide input for the current year audit is:

Area	Specialists
Valuation of Land and Buildings	Wilkes, Head and Eve – RICS Registered Valuers Council's Internal Surveyor EY Property specialists
Pensions disclosure	Barnett Waddington EY Actuaries PWC Actuary commissioned by NAO

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Governance & Audit Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	November		
Walkthrough of key systems and processes	December		
	January	Governance & Audit Committee	Audit Planning Report
Testing of routine processes and controls Interim audit testing	February		
	March	Governance & Audit Committee	Interim Audit Update (if required)
	April		
	May	Governance & Audit Committee	Progress Report (if required)
Year end audit	June		
Audit Completion procedures	July	Governance & Audit Committee	Audit Results Report Audit opinions and completion certificates
	August		
	September	Governance & Audit Committee	Annual Audit Letter

08 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
► The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence. ► Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard	► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ► Written confirmation that all covered persons are independent; ► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ► Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ► An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Andrew Brittain, your audit engagement lead and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%. At the time of writing, we have proposed to under take the role of reporting accountant for the DWP's Housing Benefit Assurance Process (HBAP). We have determined appropriate safeguards.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here: http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work (1)	80,639	80,639	104,726
Total audit	80,639	80,639	104,726
Other non-audit services not covered above - Housing Benefits (HB)	18,771 (3)	N/A (3)	20,100 (2)
Total other non-audit services	18,771	18,771	20,100
Total fees	99,410	99,410	124,826

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Council; and
- ► The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Note:

(1) Our 2018/19 Code work includes, but has not quantified, additional planned procedures highlighted in section two of this report to address the new accounting requirements of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers, and planned procedures to address the implications of IFRS 16 Leases for the 2018/19 accounts if implemented for 2019/20. As at the date of our planning report the Council is yet to evidence their assessment of the impact of these standards, and so we cannot currently quantify the expected scale fee variation for these additional procedures. We will agree this with management, depending on the identified impact of the new standards.

We will also require value for money conclusion procedures to address the significant risks identified in this plan which , we don not believe, are taken into account in the PSAA's scale fee. The scale fee is based on historic levels of activity and risks, both of which have been low for Bracknell Forest Council. We will work with management to minimise the fee impact, but an increased fee is likely due to the extent of the value for money risks.

(2) Our final audit fee for the 2017/18 HB audit is 20% less than the PSAA scale fee of £25,125 as the Council completed the HB workbooks for us to reperform audit testing on.

(3) Our audit fee for the 2018/19 HB audit is now outside the scope of the PSAA audit and as a result has been agreed as a separate non-audit service engagement with a base fee of £18,771.

Appendix B

Required communications with the Governance & Audit Committee

We have detailed the communications that we must provide to the Governance & Audit Committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Governance & Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report

Appendix B

Required communications with the Governance & Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report
Fraud	• Enquiries of the Governance & Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report

Required communications with the Governance & Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Governance & Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance & Audit Committee may be aware of	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report

Required communications with the Governance & Audit Committee ~~(continued)~~

Our Reporting to you

Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, the Governance& Audit Committee reporting appropriately addresses matters communicated by us to the Governance & Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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TO: GOVERNANCE AND AUDIT COMMITTEE
30 JANUARY 2019

CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18
DIRECTOR: FINANCE

1 PURPOSE OF REPORT

1.1 To enable the Council's External Auditor to present to the Committee their report on the result of the grant claims audit for 2017/18.

2 RECOMMENDATION

2.1 The Committee notes the External Auditor's Annual Report on grant claims and returns for 2017/18.

3 REASONS FOR RECOMMENDATION(S)

3.1 To ensure that the Committee is aware of the results of the grant claims audit for 2017/18.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 None available.

5 SUPPORTING INFORMATION

5.1 The Council's External Auditor Ernst and Young has provided the Committee a report and details setting out its findings in respect of the audit of grant claims for the 2017/18 financial year. Andrew Brittain, Director, Ernst and Young will attend the meeting to present the report and answer questions.

6 BOROUGH SOLCITOR'S COMMENTS

6.1 Nothing to add to the report.

7 BOROUGH TREASURER'S COMMENTS

7.1 Nothing to add to the report.

8 OTHER OFFICER'S COMMENTS

8.1 Not applicable.

9 EQUALITIES IMPACT ASSESSMENT

9.1 Not applicable.

10 STRATEGIC RISK MANAGEMENT ISSUES

10.1 None arising from this report.

11 PRINCIPAL GROUPS CONSULTED

11.1 Not applicable

12 BACKGROUND PAPERS

12.1 BFC HB Certified Claim - Ernst & Young Report

12.2 BFC HB Qualification Letter – Ernst & Young Report

12.3 BFC Annual Certification report – Ernst & Young Report.

13 CONTACT FOR FURTHER INFORMATION

Stuart McKellar, Borough Treasurer - 01344 352180
Stuart.mckellar@bracknell-forest.gov.uk

DWP Department for Work and Pensions

AUTHORITIES IN ENGLAND	FORM MPF720A

Statement of Local Authority claimed entitlement to HOUSING BENEFIT SUBSIDY for 2017/2018.

AUTHORITY NAME	**BRACKNELL**								**001**
AUTHORITY REFERENCE NUMBER	0	3	5	7	1	0	1	5	**002**

IMPORTANT:

1. Please read the guidance notes before you fill in this form.
2. Incorrectly completed forms may have to be returned and errors may result in payment being delayed.
3. Deadline for receipt is **30 APRIL 2018;** deadline for receipt of the auditor-certified claim is **30 NOVEMBER 2018**.

FINAL SUBSIDY CLAIM FOR HOUSING BENEFIT - 2017/2018

SUBSIDY CLAIMED FOR RENT REBATES (Cell 036S + Cell 076S)	842,310	**003**
SUBSIDY CLAIMED FOR RENT ALLOWANCE (Cell 129S)	28,332,023	**004**

ADMINISTRATION SUBSIDY RECEIVED	319,090	**005**
TOTAL REDUCTION FOR PRIOR YEAR UNCASHED PAYMENTS (Cell 179S)	2	**006**
TOTAL SUBSIDY CLAIMED Cells (003 + 004 + 005) - (006)	29,493,421	**007**
LESS INTERIM BENEFIT SUBSIDY	27,809,794	**008**
BALANCE NOW OWED TO OR BY(-) AUTHORITY (Cell 007 - Cell 008)	1,683,627	**009**

PLEASE PROVIDE A LOCAL AUTHORITY CONTACT:

Name: SHANAZ ALAM

Telephone No. (+STD) 01344 - 351344 Ext —

Completed final claim should be returned by e-mail to:
HBSubsidy@dwp.gsi.gov.uk

Department for Work and Pensions
Housing Delivery Division
Housing Benefit Unit (Room B120D)
Warbreck House
BLACKPOOL
FY2 0UZ

Telephone:
01253 337972
01253 337763
01253 337975

FOR DEPARTMENT USE ONLY

Input by	
Date	
Authorised	
Date	

Cell 010 - Spare

RENT REBATES (TENANTS OF NON-HRA PROPERTIES)

TOTAL EXPENDITURE (Benefit Granted) 985,668 **011**

	Expenditure	Cell	Rate	Subsidy	Cell
BOARD AND LODGING AND NON SELF-CONTAINED LICENSED ACCOMMODATION WHERE THE LOCAL AUTHORITY IS THE LANDLORD					
Expenditure **up to** the lower of the one bedroom self-contained LHA rate and the upper limit (£500 or £375).	88,374	**012**	**1.00**	88,374	**012S**
Expenditure **above** the lower of the one bedroom self-contained LHA rate and the upper limit (£500 or £375).	1,542	**013**	**NIL**	0	**013S**
SHORT-TERM LEASED AND SELF-CONTAINED LICENSED ACCOMMODATION WHERE THE LOCAL AUTHORITY IS THE LANDLORD					
Expenditure **up to** the lower of 90% of the appropriate LHA rate for the property, and the upper limit (£500 or £375).	585,746	**014**	**1.00**	585,746	**014S**
Expenditure **above** the lower of 90% of the appropriate LHA rate for the property plus the management costs element, and the upper limit (£500 or £375).	118,219	**015**	**NIL**	0	**015S**

Cells 016 to 020 - Spare

Cell 021 - Scotland only

	Expenditure	Cell	Rate	Subsidy	Cell
EXTENDED PAYMENTS Total extended payments of non-HRA rent rebates.	6,090	**022**	**1.00**	6,090	**022S**
NON-HRA RENT REBATE EXPENDITURE ATTRACTING FULL-RATE SUBSIDY WHICH IS INCLUDED IN CELL 011 BUT NOT OTHERWISE SEPARATELY IDENTIFIED IN THIS SECTION	153,656	**023**	**1.00**	153,656	**023S**
OVERPAID (NON-HRA) RENT REBATES (CURRENT YEAR)					
DWP error overpayments recovered.	0	**024**	**NIL**	0	**024S**
DWP error overpayments not recovered.	0	**025**	**1.00**	0	**025S**

LA error and administrative delay overpayments.	1,886	**026**	**NIL**	0	**026S**
Technical overpayments.	778	**027**	**NIL**	0	**027S**
Eligible overpayments.	29,377	**028**	**0.40**	11,751	**028S**

OVERPAID (NON-HRA) RENT REBATES (PRIOR YEARS)

DWP error overpayments recovered.	0	**029**	**NIL**	0	**029S**
DWP error overpayments not recovered.	0	**030**	**1.00**	0	**030S**
LA error and administrative delay overpayments.	2	**031**	**NIL**	0	**031S**
Technical overpayments.	0	**032**	**NIL**	0	**032S**
Eligible overpayments.	8,655	**033**	**0.40**	3,462	**033S**

TOTAL SUBSIDY CLAIMED AT FULL RATE
Cell 034S = (012S + 014S + 022S + 023S + 025S)
- (029 + 031 + 032 + 033).

825,209 | **034S**

TOTAL SUBSIDY CLAIMED AT REDUCED RATES
Cell 035S = 028S + 033S.

15,213 | **035S**

TOTAL NON-HRA RENT REBATE SUBSIDY CLAIMED
Cell 036S = 034S + 035S + 208S.
(The amount in cell 036S is added to the amount in cell 076S and entered in cell 003.)

842,310 | **036S**

IN-YEAR RECONCILIATION
Cell 037 = total of cells (012 to 015) and (022 to 028); this must equal the figure in cell 011.

985,668 | **037**

BACKDATED EXPENDITURE

86 | **038**

Cells 039 to 054 - Spare

RENT REBATES (TENANTS OF HRA PROPERTIES)

TOTAL EXPENDITURE
(Benefit Granted)
(This figure minus the figure in cell 079 is transferred to cell 222.)

0 | **055**

	EXPENDITURE		RATE	SUBSIDY	
Cells 056 to 057 - Wales only **Cell 058 - Spare**					
EXTENDED PAYMENTS Total extended payments of HRA rent rebates.	0	**059**	**1.00**	0	**059S**
EXPENDITURE ON AFFORDABLE RENTS Total expenditure on affordable rents for properties in the HRA.	0	**060**	**1.00**	0	**060S**
HRA RENT REBATE EXPENDITURE ATTRACTING FULL-RATE SUBSIDY WHICH IS INCLUDED IN CELL 055 BUT NOT OTHERWISE SEPARATELY IDENTIFIED IN THIS SECTION	0	**061**	**1.00**	0	**061S**
Cell 062 - Wales only					
OVERPAID (HRA) RENT REBATES (CURRENT YEAR)					
DWP error overpayments recovered.	0	**063**	**NIL**	0	**063S**
DWP error overpayments not recovered.	0	**064**	**1.00**	0	**064S**
LA error and administrative delay overpayments.	0	**065**	**NIL**	0	**065S**
Technical overpayments.	0	**066**	**NIL**	0	**066S**
Eligible overpayments.	0	**067**	**0.40**	0	**067S**
OVERPAID (HRA) RENT REBATES (PRIOR YEARS)					
DWP error overpayments recovered.	0	**068**	**NIL**	0	**068S**
DWP error overpayments not recovered.	0	**069**	**1.00**	0	**069S**
LA error and administrative delay overpayments.	0	**070**	**NIL**	0	**070S**
Technical overpayments.	0	**071**	**NIL**	0	**071S**
Eligible overpayments.	0	**072**	**0.40**	0	**072S**
TOTAL SUBSIDY CLAIMED AT FULL RATE Cell 073S = (059S + 060S + 061S + 064S) - (068 + 070 + 071 + 072).				0	**073S**
TOTAL SUBSIDY CLAIMED AT REDUCED RATES Cell 074S = 067S + 072S.				0	**074S**
SUBSIDY LIMITATION PERCENTAGE (This figure is taken from cell 224).	100 %	**075**			

TOTAL HRA RENT REBATE SUBSIDY CLAIMED
Cell 076S = ((073S - 060S + 074S + 209S) x 075) + 060S.
(The amount in cell 076S is added to the amount in cell 036S and entered in cell 003.)

0	**076S**

IN-YEAR RECONCILIATION
Cell 077 = total of cells (059 to 061) and (063 to 067); this must equal the figure in cell 055.

0	**077**

BACKDATED EXPENDITURE

0	**078**

TOTAL EXPENDITURE ON AFFORDABLE RENTS INCLUDING AFFORDABLE RENTS OVERPAYMENTS

0	**079**

Cells 080 to 093 - Spare

RENT ALLOWANCES

TOTAL EXPENDITURE (Benefit Granted)

28,957,645	**094**

	EXPENDITURE		RATE	SUBSIDY	
REGULATED TENANCIES Total expenditure in respect of "regulated tenancies" entered into before de-regulation.	96,381	**095**	**1.00**	96,381	**095S**

EXPENDITURE UNDER THE RENT OFFICER ARRANGEMENTS:
CASES REFERRED TO THE RENT OFFICER BY 30 APRIL 2018 AS REQUIRED (EXCLUDING EXPENDITURE MADE UNDER PAYMENTS ON ACCOUNT UNDER REG.93 OF SI 2006 No.213 OR REG.74 OF SI 2006 No.214)

CLAIMS ADMINISTERED UNDER THE PRE-1996 RULES

Total expenditure on that part of weekly eligible rent above the rent officer's determination on a claim where restrictions could not be made under Regs.13 or 13ZA.	45,398	**096**	**0.60**	27,239	**096S**
Total expenditure on that part of weekly eligible rent above the rent officer's determination on a claim where restrictions could be made under Regs.13 or 13ZA. Exclude amounts in cell 096.	-9,857	**097**	**NIL**	0	**097S**
Total expenditure on that part of weekly eligible rent at or below the rent officer's determination on a claim.	101,054	**098**	**1.00**	101,054	**098S**

MAXIMUM RENT CASES

Total expenditure up to the maximum rent.	637,336	**099**	**1.00**	637,336	**099S**

EXPENDITURE UNDER THE RENT OFFICER ARRANGEMENTS:
PAYMENTS MADE ON ACCOUNT UNDER REG.93 OF SI 2006 No. 213 OR REG.74 OF SI 2006 No. 214 AND REFERRAL MADE TO THE RENT OFFICER BY 30 APRIL 2018

Total expenditure arising from payments made on account under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No. 214 in which a referral was made by 30 April 2018.	3,600	**100**	**1.00**	3,600	**100S**

EXPENDITURE UNDER THE RENT OFFICER ARRANGEMENTS:
CASES REQUIRING REFERRAL BUT NO REFFERAL MADE BY 30 APRIL 2018

Expenditure where there is no current determination and no referral made by 30 April 2018.	0	**101**	**NIL**	0	**101S**

EXPENDITURE UNDER THE RENT OFFICER ARRANGEMENTS:
CASES EXCLUDED FROM REQUIREMENT TO REFER TO THE RENT OFFICER

Total expenditure related to cases not requiring referral to the rent officer.	19,835,950	**102**	**1.00**	19,835,950	**102S**

LHA EXPENDITURE

Total expenditure in claims administered under LHA rules.	7,523,254	**103**	**1.00**	7,523,254	**103S**

EXPENDITURE ON BOARD AND LODGING AND NON SELF-CONTAINED LICENSED ACCOMMODATION PROVIDED AS TEMPORARY OR SHORT TERM ACCOMMODATION WHERE A REGISTERED HOUSING ASSOCIATION IS THE LANDLORD

Expenditure **up to** the lower of the one bedroom self-contained LHA rate and the upper limit (£500 or £375).	0	**104**	**1.00**	0	**104S**
Expenditure **above** the lower of the one bedroom self-contained LHA rate and the upper limit (£500 or £375).	0	**105**	**NIL**	0	**105S**

EXPENDITURE ON SELF-CONTAINED LICENSED ACCOMMODATION AND ACCOMMODATION OWNED OR LEASED BY A REGISTERED HOUSING ASSOCIATION PROVIDED AS TEMPORARY OR SHORT TERM ACCOMMODATION WHERE A REGISTERED HOUSING ASSOCIATION IS THE LANDLORD

Expenditure **up to** the lower of 90% of the appropriate LHA rate for the property,and the upper limit (£500 or £375).	-3,009	**106**	**1.00**	-3,009	**106S**
Expenditure **above** the lower of 90% of the appropriate LHA rate for the property plus the management costs element, and the upper limit (£500 or £375).	0	**107**	**NIL**	0	**107S**

SUPPORTED RENT EXPENDITURE

Total expenditure for any claims or awards that have had their eligible rent calculated within the rules that have replaced the use of the pre 1996 rules for "exempt accommodation".	0	**108**	**1.00**	0	**108S**

EXTENDED PAYMENTS

Total extended payments of rent allowance.	64,913	**109**	**1.00**	64,913	**109S**

RENT ALLOWANCE EXPENDITURE ATTRACTING FULL-RATE SUBSIDY WHICH IS INCLUDED IN CELL 094 BUT NOT OTHERWISE SEPARATELY IDENTIFIED IN THIS SECTION

	0	**110**	**1.00**	0	**110S**

OVERPAID RENT ALLOWANCES (CURRENT YEAR)

DWP error overpayments recovered.	0	**111**	**NIL**	0	**111S**
DWP overpayments not recovered.	2,905	**112**	**1.00**	2,905	**112S**
LA error and administrative delay overpayments.	57,137	**113**	**NIL**	0	**113S**
Eligible overpayments.	602,583	**114**	**0.40**	241,033	**114S**
Duplicate payments.	0	**115**	**0.25**	0	**115S**
Recovered overpayments resulting from the use of payments on account made under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No.214.	0	**116**	**NIL**	0	**116S**
Overpayments resulting from the use of payments on account made under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No.214 which have not been recovered.	0	**117**	**1.00**	0	**117S**

OVERPAID RENT ALLOWANCES (PRIOR YEARS)

DWP error overpayments recovered.	0	**118**	**NIL**	0	**118S**
DWP overpayments not recovered.	0	**119**	**1.00**	0	**119S**
LA error and administrative delay overpayments.	24,418	**120**	**NIL**	0	**120S**

Eligible overpayments.	462,492	**121**	**0.40**	184,997	**121S**
Duplicate payments.	0	**122**	**0.25**	0	**122S**
Recovered overpayments resulting from the use of payments on account made under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No.214.	0	**123**	**NIL**	0	**123S**
Overpayments resulting from the use of payments on account made under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No.214 which have not been recovered.	0	**124**	**1.00**	0	**124S**

TOTAL SUBSIDY CLAIMED AT FULL RATE
Cell 125S = (095S + 098S + 099S + 100S + 102S + 103S + 104S + 106S + 108S + 109S + 110S +112S + 117S) - (118 + 120 + 121 + 122 + 123).

27,775,474	**125S**

TOTAL SUBSIDY CLAIMED AT REDUCED RATES
Cell 126S = 096S + 114S + 115S + 121S + 122S.

453,269	**126S**

TOTAL RENT ALLOWANCE SUBSIDY CLAIMED
Cell 127S = 125S + 126S + 210S.

28,310,298	**127S**

MODIFIED SCHEME SUBSIDY
(This figure to be transferred from cell 216S.)

21,725	**128S**

TOTAL SUBSIDY
Cell 129S = 127S + 128S
(The amount in cell 129S is entered in cell 004.)

28,332,023	**129S**

IN-YEAR RECONCILIATION
Cell 130 = total of cells 095 to 117;
this must equal the figure in cell 094.

28,957,645	**130**

BACKDATED EXPENDITURE

6,490	**131**

Cells 132 to 178 - Spare

SUBSIDY ADDITIONS AND DEDUCTIONS

UNCASHED PAYMENTS
Subsidy reduction in respect of uncashed payments prior to 2017/2018
(The amount in cell 179S is entered in cell 006.)

2	**179S**

Cells 180 to 190 - Scotland and Wales

Cells 191 to 200 - Spare

LOCAL AUTHORITY ERROR AND ADMINISTRATIVE DELAY SUBSIDY

TOTAL EXPENDITURE ATTRACTING FULL SUBSIDY (Cells 034S + 073S + 125S)	28,600,683	**201**
Lower threshold (cell 201 x 0.48%).	137,283	**202**
Upper threshold (cell 201 x 0.54%).	154,444	**203**
TOTAL LA ERROR AND ADMINISTRATIVE DELAY OVERPAYMENTS (Cells 026 + 031 + 065 + 070 + 113 + 120)	83,443	**204**
SUBSIDY CALCULATION Enter the figure from cell 204 if less than or equal to cell 202. Otherwise enter "0".	83,443	**205**
Enter the figure from cell 204 if more than cell 202 but less than or equal to cell 203. Otherwise enter "0".	0	**206**
LA error and administrative delay subsidy due (cell 205 + (cell 206 x 0.40)).	83,443	**207S**

LA ERROR AND ADMINISTRATIVE DELAY SUBSIDY APPORTIONMENTS

Rebates for non-HRA properties (cell 207S x ((cell 026 + 031) divided by cell 204)). This figure to be included in cell 036S.	1,888	**208S**
Rebates for HRA properties (cell 207S x ((cell 065 + 070) divided by cell 204)). This figure to be included in cell 076S.	0	**209S**
Rent Allowances (cell 207S x ((cell 113 + 120) divided by cell 204)). This figure to be included in cell 127S.	81,555	**210S**

Cell 211 - Spare

MODIFIED SCHEMES SUBSIDY

Total subsidy claimed before any addition in respect of the operation of a local scheme. (Cells 036S + 076S + 127S)	29,152,608	**212**
Enter 0.2% of cell 212.	58,305	**213**
Expenditure due to the **voluntary** disregarding of War Disablement Pensions or War Widows Pensions.	28,967	**214**
Enter 75% of cell 214.	21,725	**215**
Enter the lower of cells 213 and 215. This figure to be transferred to cell 128S.	21,725	**216S**

RENT REBATE SUBSIDY LIMITATION SCHEME

2017/18 weekly rent limit.	0.00	**217**
Derogation from Rent Rebate subsidy limitation, if granted.	0.00	**218**
Average weekly rent for 2017/18 **excluding affordable rents** (rent for Rent Rebate subsidy limitation purposes).	0.00	**219**
Rental income for 2017/18 **excluding affordable rents**.	0.00	**220**
Enter zero if not subject to limitation, otherwise enter the amount in cell 220.	0.00	**221**
Amount of rebates paid in 2017/18 (this is the figure entered in cell 055 minus the figure entered in cell 079).	0	**222**
Proportion of rental income rebated in 2017/18. (Cell 223 = cell 222/cell 220)	0.0000	**223**
Rent Rebate subsidy limitation percentage. If cell 219 is less than or equal to cells 217 + 218, cell 224 = 100%;	100.00	**224**

If cell 219 is greater than cells 217 + 218 and if cell 223 is less than or equal to 0.739, cell 224 = (cells 217 + 218)/cell 219;

If cell 219 is greater than cells 217 + 218 and if cell 223 is greater than 0.739, cell 224 = 1 - (((cell 219 - (cells 217 + 218))/cell 219) x (0.739/cell 223)).

(The percentage is transferred to cell 075.)

MODIFIED SCHEMES

Total paid on increase in benefit arising from local schemes which allow some or all of a war disablement or war widow's pension to be disregarded.

Non-HRA Rent Rebate	HRA Rent Rebate	Rent Allowance	Total HB	
0	0	28,967	28,967	**225**

LOCAL AUTHORITY CERTIFICATE
* **I APPLY** on behalf of the authority for payment, in advance of certification by the appointed auditor, of the amount shown at cell 009. * **I ~~UNDERTAKE~~** ~~on behalf of the authority to pay on demand to the Secretary of State the amount shown at cell 009~~. **I CERTIFY** that I have examined the entries within this form and that to the best of my knowledge and belief - the entries are accurate; the expenditure, on which the claim is based, has been properly incurred in accordance with the Social Security Contributions and Benefits Act 1992 and the instructions made or having force thereunder, in particular the Housing Benefit Regulations 2006; this claim for subsidy is on the form required by the Secretary of State and the information given on it is in accordance with that Act and the instruments made or having force thereunder, in particular the Income-related Benefits (Subsidy to Authorities) Order 1998; no amounts in this claim have been included in any claim by an authority or authorities* acting as an agent or agents* of this authority; and the authority's administrative systems, procedures and key controls for awarding benefits operate effectively and the authority has taken reasonable steps to prevent and detect fraud.

SIGNED : S. D. Mk	**DATE :** 24/04/2018
This signature, certifying this claim, must be that of the officer responsible pursuant to Section 151 of the Local Government Act 1972 (Responsible Finance Officer)	
Name (block) STUART MCKELLAR	**Position held :** BOROUGH TREASURER

** Delete as necessary*

CERTIFICATE OF AUDITOR APPOINTED BY PUBLIC SECTOR AUDIT APPOINTMENTS

The Statement of Responsibilities of grant-paying bodies, authorities, Public Sector Audit Appointments and appointed auditors in relation to claims and returns, issued by Public Sector Audit Appointments, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors.

We ~~I/We~~ have examined the entries in this form ~~(which replaces or amends the original submitted to me/us by the authority dated)~~* and the related accounts and records of the authority in accordance with Certification Instruction A01 and we ~~I/we~~ have carried out the tests in Certification Instruction number BEN01 and obtained such evidence and explanations as we ~~I/we~~ consider necessary.

(Except for the matters raised in the attached qualification letter dated 21/11/2018)*
we ~~I/we~~ have concluded that the claim or return is:

- fairly stated; and
- in accordance with the relevant terms and conditions.

Signature Helen Thomson

Associate Partner

Date 21 Nov 2018

Name (block capitals) HELEN THOMPSON

On behalf of Public Sector Audit Appointments

for & on behalf of Ernst & Young LLP, appointed auditor

** Delete as necessary*

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Our reference	**EY/BFC/BEN01/1718**
Your reference	**Form MPF720A**
Date	21 November 2018

Department for Work and Pensions
Housing Benefits Unit
Room B120D
Warbreck House
BLACKPOOL
FY2 0UZ

Dear Sir/Madam

Bracknell Forest Council

Housing Benefit & Council Tax Benefit claim for the year ended 31 March 2018 (Form MPF720A)

Qualification Letter referred to in the Auditor's Certificate dated 21 November 2018

Details of the matters giving rise to our qualification of the above claim are set out in the Appendix to this letter.

The factual content of our qualification has been agreed with officers of the Authority.

No amendments have been made to the claim for the issues raised in this qualification letter.

Yours faithfully

Helen Thompson

Associate Partner

For and on Behalf of Ernst & Young LLP
Southampton

Building a better working world

Cell 94: Rent Allowance – Total Expenditure (Benefit Granted)
Cell Total: £ 28,957,645

Cell Total: £6,209,830 (sub population)
Cell population: 6,092
Cell population: 1,278 (sub population)
Headline cell: £ 28,957,645

Qualification: Incorrect calculation of earnings

No errors were identified in the initial 2017/18 discovery sample of 20 claims of earnings being incorrectly calculated in these cases.

However, issues on the incorrect calculation of earnings were reported in the 2016/17 Qualification Letter and the nature of the error is such that either an underpayment or overpayment may arise. Therefore we undertook testing of an additional random sample of 40 cases selected from a sub population of claims containing earnings. We identified the following errors and the impact on the claim:

- 4 cases (total error value £582.78) where the earnings have been incorrectly assessed resulting in an underpayment of benefit; and
  - As there is no eligibility to subsidy for benefit which has not been paid, the 4 underpayments identified do not affect subsidy and have not, therefore, been classified as errors for subsidy purposes.
- 3 cases (total error value £254.48) where the earnings have been incorrectly assessed resulting in an overpayment of benefit. The effect of these overpayments is to overstate cells 103 and 114, with a corresponding understatement of cell 113; there is no effect on cell 094.
  - The result of our testing is set out in the table below:

Sample:	Movement / brief note of error:	Original cell total – sub population:	Sample error:	Sample value:	Percentage error rate:	Cell adjustment:	Revised cell total if adjustment applied:
		[SP]	[SE]	[SV]	[SE/SV]	[SE/SV times CT]	[RA]
Initial sample – 20 cases	Incorrect assessment of earned income	£ 6,209,830	£Nil	£35,385			
Additional sample – 40 cases	Incorrect assessment of earned income	£ 6,209,830	(£255)	£211,931			
Combined sample – 60 cases	Incorrect assessment of earned income	£ 6,209,830	(£255)	£247,316	(0.103%)	(£6,396)	
Adjustment	Combined sample. Cell 114 overstated.	£ 6,209,830	(£161)	£247,316	(0.065%)	(£4,036)	
Adjustment	Combined sample. Cell 103 overstated.	£ 6,209,830	(£94)	£247,316	(0.038%)	(£2,360)	
Total Corresponding adjustment	**Total understatement of cell 113.**					**£6,396**	

The percentage error rate in our sample reflects the individual cases selected. The value of the errors found range from £18 to £161 and the benefit periods range from 1 week to 20 weeks. Similar findings were included in our qualification letters for 2016/17.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Observation:

Cell 011: Non HRA rent rebate - Total expenditure (Benefit Granted)
Cell Total: £ 985,668
Cell Population 205
Headline Cell £ 985,668

Underpayment of subsidy

Testing of the initial sample identified 1 case where the Authority underpaid benefit as a result of the Authority entering incorrect Child Tax Credit and Working Tax Credit information in such a way that could only ever lead to more underpayments. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.

Because this error will always lead to an underpayment of benefit (or no impact), additional testing has not been undertaken.

No similar findings have been reported in previous qualification letters.

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Certification of claims and returns annual report 2017-18

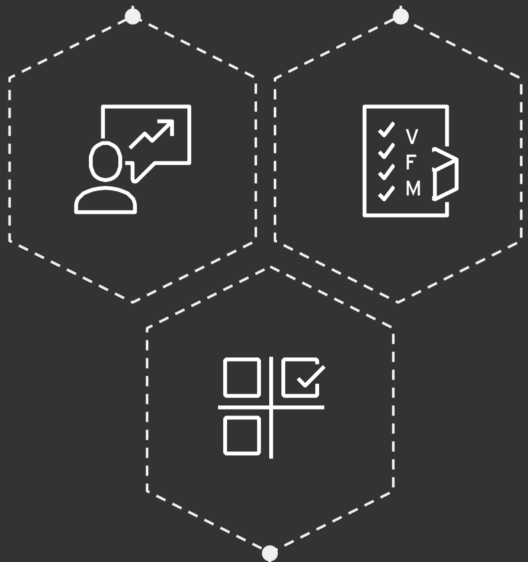
Bracknell Forest Council

January 2019

EY

Building a better working world

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Governance and Audit Committee and management of Bracknell Forest Council. Our work has been undertaken so that we might state to the Governance and Audit Committee and management of Bracknell Forest Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance and Audit Committee and management of Bracknell Forest Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Housing benefits subsidy claim

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£29,493,421
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2017-18	£23,823
Fee – 2016-17	£20,100

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims.

We reported underpayments of housing benefit and the extrapolated value of other errors in a qualification letter to the DWP. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid. The main issue we reported on was:

- **Rent allowance – employed earnings**

Extended testing was performed on a sample of Rent Allowance employed earnings as a result of miscalculation errors identified in the prior year. Three cases resulted in overpayments of benefit with a total value of £254.48 and four cases resulted in underpayments of benefit with a total value of £582.78 (two cases had both under and overpayments due to multiple changes in employed earnings).

Our certification guidance required us to report the errors from our initial and extended samples to the DWP in our qualification letter, along with the extrapolated value of the overpayments of £6,396. Amendments have been made to the individual claims in 2018-19 to ensure that the benefit paid to claimants is corrected.

02 2017-18 certification fees

2017-18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017-18, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) and are available on their website (www.psaa.co.uk).

Claim or return	2017-18	2017-18	2016-17
	Actual fee £	**Indicative fee £**	**Actual fee £**
Housing benefits subsidy claim	23,823	25,075	20,100

The scale fees set by PSAA are based on the fee charged to the Council two years prior to the year in question.

The actual fee shown above for 2017-18 includes a proposed 20% refund to the Council in recognition that officers performed the initial case testing this year, which has been quantified as £5,015. This is partly offset by a proposed scale fee variation for additional extended testing performed compared with the base year of 2015-16, which has been quantified as £3,763. The proposed net fee reduction is therefore £1,252. This remains subject to final agreement with the PSAA.

03 Looking forward

Looking forward

2018/19 and beyond

From 2018/19, the Council is responsible for appointing its own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for 2018-19 the Council has appointed us to act as reporting accountants in relation to the housing benefit assurance process.

We welcome this opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on vast array of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

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TO : GOVERNANCE AND AUDIT COMMITTEE
30 JANUARY 2019

INTERNAL AUDIT INTERIM REPORT
April –December 2018

(Head of Audit and Risk Management)

1 PURPOSE OF REPORT

1.1 This report provides a summary of Internal Audit activity during the period April to December 2018.

2 EXECUTIVE SUMMARY

2.1 The report summarises progress and outcome of work carried out by both internal audit contractors and the in-house team in accordance with the Annual Internal Audit Plan approved by the Governance and Audit Committee. Any significant developments since the time of writing will be reported verbally to the Committee and included in future assurance reports.

3 RECOMMENDATION

3.1 The Governance and Audit Committee are asked to note the attached report.

4 REASONS FOR RECOMMENDATION

4.1 To ensure that the Governance and Audit Committee are aware of the internal audit work performed and conclusions reached.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 No alternative options available.

6 SUPPORTING INFORMATION

6.1 Under the Council's Constitution and Scheme of Delegation the Borough Treasurer is responsible for the administration of the financial affairs of the Council under Section 151 of the Local Government Act 1972. Professional guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires the provision of an effective Internal Audit function to partly fulfil his responsibilities under Section 151.

6.2 The provision of Internal Audit services is largely outsourced to Mazars Public Sector Internal Audit. Mazars are responsible for delivering approximately two thirds of the audits set out in the Annual Internal Audit Plan approved by the Governance and Audit Committee in March 2018. IT audits are undertaken by TIAA Limited. The remaining audits are delivered by Wokingham internal audit team under an agreement under Section113 of the Local Government Act 1972 which provides for the sharing of staff resources or are undertaken in house. The attached report summarises delivery to date on the audits approved under the Plan and other assurance activities carried out in-house within Audit and Risk Management.

7 BOROUGH SOLICITOR'S COMMENTS

7.1 There are no significant legal implications arising from this report.

8 BOROUGH TREASURER'S COMMENTS

8.1 Nothing to add.

9 OTHER OFFICERS' COMMENTS

9.1 Not applicable.

10 EQUALITIES IMPACT ASSESSMENT

10.1 Not applicable.

11 STRATEGIC RISK MANAGEMENT ISSUES

11.1 Internal Audit provides assurance on the Council's control environment based on the work undertaken and areas audited. Internal control is based upon an ongoing process designed to identify and prioritise risks and to evaluate the likelihood of those risks being realised and the impact should they arise. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure altogether. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

12 CONSULTATION

12.1 Not applicable.

13 BACKGROUND PAPERS

13.1 Annual Internal Plan 2018/19

13.2 Strategic Risk Register

14 CONTACT FOR FURTHER INFORMATION
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Bracknell Forest Council

HEAD OF AUDIT AND RISK MANAGEMENT REPORT

APRIL – DECEMBER 2018

1. BACKGROUND

1.1 The Council is required under the Accounts and Audit (Amendment) (England) Regulations to “maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control.” This report summarises the activities of Internal Audit for the period April to December 2018 drawing together progress on the Annual Internal Audit Plan, risk management and other activities carried out by Internal Audit.

2. INTERNAL AUDIT

2.1 The basic approach adopted by Internal Audit falls broadly into four types of audit:

- System reviews provide assurance that the system of control in all activities undertaken by the Council is appropriate and adequately protects the Council’s interests.
- Regularity (financial) checking helps ensure that the accounts maintained by the Council accurately reflect the business transacted during the year. It also contributes directly towards the external auditor’s audit of the annual accounts.
- Computer/IT audits, carried out by specialist audit staff, provide assurance that an adequate level of control exists over the provision and use of computing facilities
- Certification as required by relevant Government departments that grant monies have been spent in accordance with grant terms and conditions.

2.2 Recommendations are made after individual audits, leading to an overall assurance opinion for the system or establishment under review and building into an overall annual assurance opinion on the Council’s operations. The different categories of recommendation and assurance opinion are set out in the following tables.

2.3 We categorise our audit opinion as set out below according to our assessment of the controls in place and the level of compliance with these controls:

Significant Assurance	There is a sound system of internal controls to meet the system objectives and manage risks and testing performed indicates that controls tested are consistently complied with.
Satisfactory Assurance	There is basically a sound system of internal controls to manage risk although there are some minor weaknesses in controls and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
Limited Assurance	There are some weaknesses in the adequacy of the internal control system and management of risks which put the systems objectives at risk and/or the level of compliance or non compliance puts some of the systems objectives at risk.
No Assurance	Control is weak and management of risks is inadequate leaving the system open to significant error or abuse and/or there is

significant non-compliance with basic controls.

2.4 We categorise our **recommendations** according to their level of priority.

High	**Priority 1**	Fundamental weakness in the design of controls or consistent non-compliance with controls that puts the achievement of systems objectives at risk.
Medium	**Priority 2**	Weakness in the design of controls or inconsistency in compliance with controls puts the achievement of systems objectives at risk.
Low	**Priority 3**	Recommended best practice to improve overall control.

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

3.1 The Annual Internal Audit Plan for 2018/19 was considered and approved by the Governance and Audit Committee on 28th March 2018. The delivery of the individual audits is largely undertaken by our contractors Mazars Public Sector Internal Audit. In addition, IT audit is undertaken by TIAA Ltd and 9 reviews will be carried out under the Section 113 arrangement with Wokingham Borough Council's Internal Audit Team. In addition five reviews and all grants are scheduled to be audited in house.

3.2 During the period April to December 2018, 4 grants were certified, 4 memos and reports without an opinion were finalised, 25 reports were finalised, 6 reports had been issued in draft awaiting management responses, 6 reports were received for client side review and in 2 cases audit work was in progress. A summary of performance to date is set out below. Details on the status and outcome of all audits are attached at Appendix A.

ASSURANCE	FINAL AND DRAFT APRIL- DECEMBER 2018	FINAL AND DRAFT 2017/18
Significant	0	1
Satisfactory	19	31
Limited	12	13
Total for Audits Including an Opinion	**31**	**45**
Grant Claim Certifications	4	6
Reports/Memos with Priority 1 Recommendation and no Opinion	4	3
Other Memos/Reports with no Opinion	0	28
Total	**39**	**82**

	Client Questionnaires		Draft Report /Memo Produced within 15 Days of Exit meeting
	Received	Satisfactory	
April to December 2018	9	100%	83%
2017/18	34	100%	76%

3.3 As noted above and at Appendix A, delivery against the planned programme is on track with the quarter 1 and 2 audits finalised, issued in draft, or in. progress. The majority of assurance opinions given were satisfactory.

Major Control Issues

3.4 Audits which have identified major weaknesses will generally be revisited in 2019/20, to ensure successful implementation of agreed recommendations. In the last interim Internal Audit Report to the Governance and Audit Committee on 31st October 2018, details were provided on seven audits with major issues. The key weaknesses identified on audits finalised since the previous report are as follows:

DIRECTORATE	AUDITS WITH MAJOR ISSUES IDENTIFIED
COUNCIL WIDE	Debt Management Two priority 1 recommendations were raised in respect of service areas not actively pursuing debt for their customers, a responsibility that sits outside the central Debtors function. Audit has been advised that in response to this, the current arrangements for debt management will be reviewed to identify the most effective credit control model for the Council.
	Social Media Four priority 1 recommendations were raised. These related to the Social Media Protocol and Acceptable Use of the Internet Policy being out of date, personal devices being used for corporate social media purposes and the absence of a Bring Your Own Device Policy. Audit has been advised that an updated Protocol and Internet Policy are in draft awaiting review and approval and these will address the use of personal devices.
DELIVERY	Cyber Security (Also Limited Assurance in 2017/18) Two priority 1 recommendations were raised in 2017/18. One of these has been implemented but the recommendation on the Acceptable Use Policy was outstanding and hence has been re-raised and two of the priority 2 recommendations that have not been implemented have been escalated to priority 1. These relate to patching and monitoring policies. Audit has been advised that a third party has been contracted to provide support in writing/revising policies and a workshop was held to help facilitate this process.

DIRECTORATE	AUDITS WITH MAJOR ISSUES IDENTIFIED
	IT Asset Management (Also Limited Assurance in 2015/16) Four priority 1 recommendations were raised in relation to access records for the store room, the need for regular stock takes, updating of the Configuration Management Database and the need to maintain adequate records of IT kit awaiting disposal. Audit has been advised that action will be taken to address these areas.

Council Wide Financial Control

3.5 There has been some weakening in financial control during 2017/18 and into 2018/19 as illustrated by the audits where major weaknesses were found as set out above for example around debt management around the Council. The control environment is also being strengthened to support the move to self service following transformation.

Update of 2017/18 Audits with Limited Assurance Opinions and/or Priority 1 Recommendations

3.6 An update on the limited assurance opinions given in 2017/18 is shown at Appendix B. This shows that as at December 2018, follow up audits had been completed in 8 cases and in 7 cases, priority 1 recommendations were raised again.as detailed in section 3.4 or previously reported where finalised.

Follow Up of Recommendations

3.7 A further follow up exercise has been completed on audits where a satisfactory opinion was given to identify progress on implementation of agreed recommendations. This was based on management being asked to provide feedback on the status of recommendations and the outcome is set out in Appendix C. This identified that out of 106 priority 2 recommendations, 58 were implemented and39 were in progress and 25 out of 30 priority 3 recommendations were either implemented or in progress.

Quality Assurance and Improvement Programme

3.8 As shown above in section 3.2, 100% of the client questionnaires indicated the auditees were satisfied with the service. In 74% of cases internal audit providers delivered the first draft report within 15 days of the exit meeting.

4. RISK MANAGEMENT

4.1 During 2018/19, the Strategic Risk Register has been reviewed three times by the Strategic Risk Management Group (SRMG), twice by the Corporate Management Team and once by the Governance and Audit Committee in June 2018. Directorate risk registers are already in place for the Delivery and Central Directorates and being reviewed quarterly and the People risk register is under development.

5. COUNTER FRAUD ACTIVITIES

National Fraud Initiative (NFI)

5.1 The NFI is a biennial data matching exercise first introduced in 1996 and conducted by the Audit Commission to assist in the prevention and detection of fraud and error in public bodies. Bracknell Forest Council is obliged to participate in this. The core mandatory data for submission in the autumn of 2018 is:

- payroll
- pensions
- trade creditors
- housing waiting lists
- housing benefits (provided by the DWP)
- council tax reduction scheme
- council tax (required annually)
- electoral register (required annually)
- private supported care home residents
- transport passes and permits (including residents' parking, blue badges and concessionary travel)
- licences – market trader/operator, taxi driver and personal licences to supply alcohol
- personal budget (direct payments)

5.2 Matches for investigation will start to come through in early 2019.

Benefits Investigations

5.3 On 1st December 2014, the Council's Benefit Fraud Investigation Officers transferred to the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP) as part of the national government programme of centralising the investigation of welfare benefit fraud. The Welfare Service passes cases of overpayments in excess of £3k and cases where fraud is suspected to SFIS for investigation. Members of the public are directed to contact the DWP directly where fraud is suspected and so SFIS receives further fraud information requests where fraud has been reported from another source. During the period April 2018 to 20 December 2018 there were 36 referrals to SFIS. We have so far been notified of 1 administrative penalty relating to these cases. During the financial year 2017/18, 95 cases were referred and the Welfare Service have been notified of 11 administrative penalties and 1 prosecution by SFIS.

5.4 From 1st April 2014, if a claimant is notified that they have been overpaid Housing Benefit by £250 or more, which must have occurred wholly after 1st October 2012, Bracknell Forest Borough Council has been able to impose a set Civil Penalty of £50. The £50 Civil Penalty applies if benefit is overpaid because the claimant negligently gave incorrect information and didn't take reasonable steps to correct their mistake or failed to tell the Council about a change or failed to give them information without a reasonable excuse. Between April 2018 and 20 December 2018 the service applied 99 Civil Penalties. From April 2016 Bracknell Forest Council has applied apply penalties of £70 in respect of Council Tax. Between April 2018 and 18 December 2018 the service applied 5 Council Tax Penalties.

5.5 Since January 2018 the DWP no longer issue mandatory referrals for Real Time Information (RTI) system for Housing Benefit to detect undeclared income. This has been replaced by the Verify Earnings and Pensions (VEP) Alerts service which provides local authorities with the capability to prevent fraud and error arising through real time identification of changes in income. The service provides Alerts to users to prompt them to access the service when there is a change in the claimants or partner's employment or pension. The DWP commenced the roll out to Local Authorities from May 2018 with Bracknell Forest Council using the service from October 2018. Since October 2018 to 10 December 2018, 111 changes of circumstances to Housing Benefit were recorded as actioned due to VEP of which approximately 70.3% resulted in a decrease to Housing Benefit, and approximately 18% resulted in an increase to Housing Benefit.

Single Person Discount

5.6 During Quarter 3, the Revenues Team engaged external consultants to carry out a data matching exercise to identify potential mis-claiming of Council Tax Single Person Discount (SPD). To date, this exercise has already confirmed 111 cases of mis-claiming of SPD increasing collectable income for 2018/19 by £44k and also increasing the amount of Council Tax to be billed and collected in 2019/20 by £44k. The Revenues Team are still awaiting responses from a further 270 individuals where data matching information is currently indicating SPD is being mis-claimed and these 270 cases will also potentially lose the discount.

Counter Fraud Training

5.7 The Internal Audit Plan includes some days for fraud awareness training targeted to teams in areas of higher fraud risk. The first session of this took place for the People directorate in January 2019.

APPENDIX A

2017/18 AUDITS

* Draft report produced within 15 working days of exit meeting to discuss audit findings

Audit	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Payroll and Pre-Employment Checks	14/2/18	18/6/18	x		✓			7	2	Final
New Commercial Properties	13/3/18	27/6/18	✓		✓			11	3	Final
Social Care Pathway	22/1/18	22/6/18	x			✓	1	5		Final

2018/19 AUDITS

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
COUNCIL WIDE Officers Expenses	30/4/18	27/7/18	x			✓				Final
Apprenticeships Levy	28/8/18	25/9/18	✓		✓			1	1	Final
Absence Management	17/9/18	8/11/18	✓			✓	1	10		Draft issued
Bracknell Forest Lottery										To be determined

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Capital Budgeting										Quarter 4 Audit
Delegations										Quarter 4 Audit which will now encompass wider governance under the new structure
Cleaning Contract	25/6/18	17/8/18	✓		✓			6		Final
Council Wide Debt Management	11/10/18	10/12/18	✓			✓	2	5	2	Final
COUNCIL WIDE IT AUDIT Social Media	26/6/18	21/11/18	✓			✓	4	4	5	Final
GRANTS Troubled Families June 2018	26/6/18	30/6/18	N/A	N/A – Grant certification						Certified
Troubled Families September 2018	17/9/18	18/918	N/A	N/A – Grant certification						Certified
Troubled Families December 2018	5/12/18	19/12/18	N/A	N/A – Grant certification						Certified
Bus Operator's Grant	17/9/18	20/9/18	N/A	N/A – Grant certification						Certified
FINANCE Creditors including										Quarter 4 Audit

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Controcc transactions										
Debtors including Controcc transactions										Audit cancelled and replaced by Council wide debt management audit.
Main Accounting including Reconciliations	25/10/18	20/12/18	✓		✓			3	1	Draft issued
Payroll including Pre-employment Checks	29/11/18		✓							Received for client side review
<u>FINANCE IT AUDIT</u> Agresso										Qtr 4 Audit
<u>DELIVERY</u> Cash Management	18/10/18	3/12/18	✓		✓			1	1	Final
Council Tax	12/11/18									Received for client side review
Business Rates	12/11/18									Received for client side review
Mayor's Fund										Qtr 4 Audit
Registrars										Deferred to 2019/20

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Home to School Transport Follow Up (P1 recommendation 2017/18)	3/7/18	27/7/18	✓	No opinion as memo issued but 1 priority 1 recommendations raised			1			Final
Minor Capital Works	27/11/18									Work in progress
Construction and Maintenance	27/11/18									Work in progress (Additional audit requested by the Governance and Audit Committee.)
Reactive highways maintenance	2/10/18	22/10/18	✓		✓			1		Final
Continental-contract landscape and street cleansing	4/6/18	27/6/18	✓		✓			2	1	Final
Car Parks										Qtr 4 Audit
Brown bins-management by contractor										Audit cancelled
Leisure Contract Management	8/10/18	28/11/18	✓		✓			4		Final
Libraries including										Qtr 4 Audit

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
use of volunteers										
<u>DELIVERY COUNTER FRAUD</u> Cash Spot Checks										Qtr 4 Audit
<u>DELIVERY IT AUDIT</u> Disaster Recovery Follow Up (P1 recommendation 2017/18)	3/10/18	5/11/18	✓		✓			1		Final
Cyber security/VOIP Follow Up (Ltd 2017/18)	1/10/18	20/11/18	✓			✓	3	7	1	Final
Enterprise Agreement programme management	11/9/18		✓			✓	1	1		Draft issued
IT Asset Management	12/9/18	7/12/18	✓			✓	4	4	2	Final
IT Helpdesk										Qtr 4 Audit
Library self service and stock purchasing systems										Qtr 4 Audit
<u>PLACE, PLANNING AND REGENERATION</u> Concessionary Fares	30/7/18	26/9/18	X		✓			7	2	Final

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
CIL/S106	18/9/18									Report received for client side review
Highways Capital Spend	14/5/18	18/6/18	✓		✓			2		Final
Highways Adoptions										Qtr 4 Audit
Development Controls										Qtr 4 Audit
Land charges	12/11/18									Report received for client side review
PEOPLE Residential Care contracts	12/9/18	5/11/18	✓			✓	3	7		Draft issued
Direct payments	20/11/18									Report received for client side review
Financial Assessments	17/9/18	8/10/18	✓		✓			8	2	Final
Forestcare Follow Up (Ltd 2017/18)	17/7/18	27/7/18	✓	No opinion as memo issued but 2 priority 1 recommendations raised			2	4	1	Final
Housing Benefit and Council Tax Reduction										Qtr 4 Audit
Housing Rents and	25/6/18	27/7/18	✓			✓	6	12		Final

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Deposits including Downshire Homes										
Public Health	3/9/18	4/12/18	X			✓	1	2		Draft issued
Adoption Services (shared services to be audited by Oxfordshire County Council Internal Auditors)										
Allowances for Fostering, Adoption and Special Guardianships										Qtr 4 Audit
Residential placements (Children's)										Qtr 4 Audit
Supervision including under the Family Safeguarding Model										Qtr 4 Audit
Margaret Wells-Furby House (Child Development Centre)	14/6/18	21/6/18	✓		✓			3		Final
SEN Resource Provision Follow up (Ltd 2017/18)	20/6/18	16/7/18	✓	No opinion as memo issued but 3 priority 1 recommendations raised			3	3		Final
The Rise	18/5/18	12/7/18	✓		✓			4		Final

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
PEP Follow up (Ltd 2017/18)	11/6/18	27/7/18	✓	No opinion as memo issued but 2 priority 1 recommendations raised			2	3		Final
Recruitment and retention incentives										Deferred to 2019/20
PEOPLE IT AUDITS GIS system	24/7/18	13/9/18	X		✓			3	8	Final
My Benefits	13/7/18	23/8/18	✓		✓				1	Final
SCHOOLS Fox Hill (Ltd 2017/18)	18/10/18	8/11/18	✓			✓	3	5		Draft issued
College Town Junior Follow up limited in 2016/17										Deferred to 2019/20
Holly Spring Juniors	23/5/18	18/6/18	✓		✓			10		Final
Warfield CE Primary School	6/11/18	4/12/18			✓			12	1	Draft issued
Woodenhill Primary and Nursery School										Deferred to 2019/20
Cranbourne Primary School										Qtr 4 audit

APPENDIX B

FOLLOW UP OF AREAS PREVIOUSLY AUDITED WITH MAJOR CONTROL ISSUES

DIRECTORATE	AUDITS WITH MAJOR ISSUES IDENTIFIED	
COUNCIL WIDE AUDITS	COUNCIL WIDE OFFICERS EXPENSES (ALSO LIMITED IN 2016/17)	Re-audited in quarter 1 and a limited assurance opinion has been given again as reported to the Committee in October 2018.
CHILDREN,YOUNG PEOPLE AND LEARNING	SEN RESOURCE PROVISIONS	Re-audited in quarter 1 and further priority 1 recommendations were raised as reported to the Committee in October 2018.
	PERSONAL EDUCATION PLANS	Re-audited in quarter 1 and further priority 1 recommendations were raised as reported to the Committee in October 2018.
CORPORATE SERVICES	HOME TO SCHOOL TRANSPORT (FOLLOW UP MEMO ISSUED. ALSO LIMITED IN 2016/17) .	Re-audited in quarter 1 and further priority 1 recommendations were raised as reported to the Committee in October 2018. .
	DISASTER RECOVERY (FOLLOW UP MEMO ISSUED. ALSO LIMITED IN 2016/17)	Re-audited in quarter 3 and the significant issues have been addressed subject to ICT seeking review and approval of DR procedures.
	CYBER SECURITY GAP ANALYIS INCLUDING VOIP	Re-audited in quarter 1 and further priority 1 recommendations were raised as set out in Section 3.4.
	BUSINESS RATES	Audit currently in progress.
	COUNCIL TAX	Audit currently in progress.
	CREDITORS	Audited annually as a key financial system and next audit due in Quarter 4.

DIRECTORATE	AUDITS WITH MAJOR ISSUES IDENTIFIED	
	ITRENT APPRAISAL MODULE	No follow up planned.
ADULT SOCIAL CARE , HEALTH AND HOUSING	FORESTCARE	Re-audited in quarter 1 and further priority 1 recommendations were raised as reported to the Committee in October 2018.
	SOCIAL CARE PATHWAY	To be revisited in 2019/20
ENVIRONMENT,CULTURE AND COMMUNITIES	CAR PARKS	To be re-audited in quarter 4
SCHOOLS	PRIMARY SCHOOL 1	Re-audited in quarter 3 and currently out in draft with a limited assurance opinion.
	PRIMARY SCHOOL 2 (Limited assurance in 14/15, 15/16 and 16/17. Follow up in 17/18 deferred due to staff sickness in the School)	This School has now merged with the Infant's School and discussions will be held with the new head teacher for the joint schools to determine how this should be followed up. be re-audited in quarter 4.
	PRIMARY SCHOOL 3	To be re-audited in quarter 4
	PRIMARY SCHOOL 4	To be re-audited in quarter 4

APPENDIX C

FOLLOW UP OF RECOMMENDATIONS

2017/18

AUDIT	Recommendations			Outcome
	1	2	3	
COUNCIL WIDE				
Mileage	0	7	1	In progress
Grants and payments to the voluntary sector	0	3	0	One implemented and 2 in progress as part of a transformation project
Data Quality	0	3	5	0ne priority 3 rec is no longer applicable three priority 3 recs are in progress as new software coming in, one priority three and three priority 2 recs are implemented
New Commercial Properties	0	11	3	All recommendations are still in progress.
Town Centre Maintenance planning	0	8	2	All completed or ongoing.
Tree Services	0	13	0	Seven implemented and six still in progress
Building Control	0	9	2	Six priority two recommendations implemented Three priority two and two priority three recommendations are in progress .
ADULT SOCIAL CARE, HEALTH AND HOUSING Emergency Duty Service	0	5	2	Implemented
IT Audits Controcc	**0**	2	2	One priority 2 and one priority 3 rec implemented. One priority three ongoing and no response provided on one priority 2 recommendation.
LAS	0	4	0	All completed
CHILDREN, YOUNG PEOPLE	0	4	0	Three implemented and one in progress

AUDIT	Recommendations			Outcome
	1	2	3	
AND LEARNING Family Centre				
Education Centre	0	3	3	All implemented except for one priority 2 recommendation which is deferred until relocation
Open learning Centre	0	5	7	Five priority 2 and four priority three recs are implemented. One priority three rec is postponed pending relocations. Two priority three recs in progress.
Pupil referral services exc PRU	0	1	1	The priority 3 rec has been implemented. Information not provided on the other recommendation.
Themed school audit- Pupil Premium	0	6	1	All implemented
Garth Hill	0	8	0	Overall seven are completed and one is still in progress around bursaries
TOTAL	0	92	29	

2018/19

AUDIT	Recommendations Priority			Outcome
	1	2	3	
Cleaning Contract	0	6	0	Implemented through issuing news letter
Reactive highways maintenance	0	1	0	Implemented
Continental-contract landscape and street cleansing	0	2	1	Implemented
Highways Capital Spend	0	2	0	Implemented
Margaret Wells-Furby House (Child Development Centre)	0	3	0	Implemented
TOTAL	0	14	1	

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TO: GOVERNANCE AND AUDIT COMMITTEE
30 JANUARY 2019

STRATEGIC RISK UPDATE

Head of Audit and Risk Management

1 PURPOSE OF REPORT

1.1 This report presents the updated Strategic Risk Register.

2 EXECUTIVE SUMMARY

2.1 The Strategic Risk Register is updated and reviewed by the Strategic Risk Management Group (SRMG) on a quarterly basis and by the Corporate Management Team (CMT) and the Governance and Audit Committee at least twice a year in accordance with the Risk Management Strategy.

3 RECOMMENDATIONS

3.1 To provide feedback on the completeness of risks and appropriateness of risk scores including the score for risk appetite in the Register attached at Appendix 1.

4 REASONS FOR RECOMMENDATION

4.1 To ensure the Strategic Risk Register accurately reflects the Council's risks.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 There are no alternatives.

6 SUPPORTING INFORMATION

Update of Strategic Risk Register

6.1 The Register was last reviewed by the Governance and Audit Committee on 27 June 2018, by SRMG on 6 November and by CMT on 16 January 2019.

6.2 Key proposed changes agreed at SRNG and CMT were to:

- Decrease the finance risk due to the anticipated underspend for 2018/19 and progress towards a balanced budget;
- Reduce the transformation risk following a fundamental review which reprioritised projects and the alignment of resources to address those priorities ;
- Reduce the staffing risk following appointments made to vacant senior officer posts;
- Include an overarching Brexit risk to replace the global economy risk; and
- Reduce the demand for services risk there is now flexibility in the Council budget to respond to changes in demand.

7 BOROUGH SOLICITOR'S COMMENTS

7.1 There are no specific legal implications arising from the recommendations in this Report.

8 BOROUGH TREASURER'S COMMENTS

8.1 No direct financial implications

9 EQUALITIES IMPACT ASSESSMENT

9.1 Not applicable.

10 STRATEGIC RISK MANAGEMENT ISSUES

10.1 A robust Strategic Risk Register that is a complete and up to date record of the significant corporate risks is essential for effective risk management, enabling the Council to prioritise resources to identify and implement actions to address the threats to the achievement of the Council's objectives and make informed decisions

11 PRINCIPAL GROUPS CONSULTED

11.1 SRMG and CMT.

12 METHOD OF CONSULTATION

12.1 At the SRMG and CMT meetings on 6 November 2018 and 16 January 2019 respectively.

13 REPRESENTATIONS RECEIVED

13.1 Not applicable.

14 CONTACT FOR FURTHER INFORMATION

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sally.hendrick@bracknell-forest.gov.uk

STRATEGIC RISK REGISTER JANUARY 2019

Strategic Theme 1:Value for money: Performance Measures : Spending is within budget

Risk 1: Significant pressures on the Council's ability to balance its finances whilst maintaining satisfactory service standards

Risk Owner: Director; Finance

Risk Rating (Likelihood x Impact)

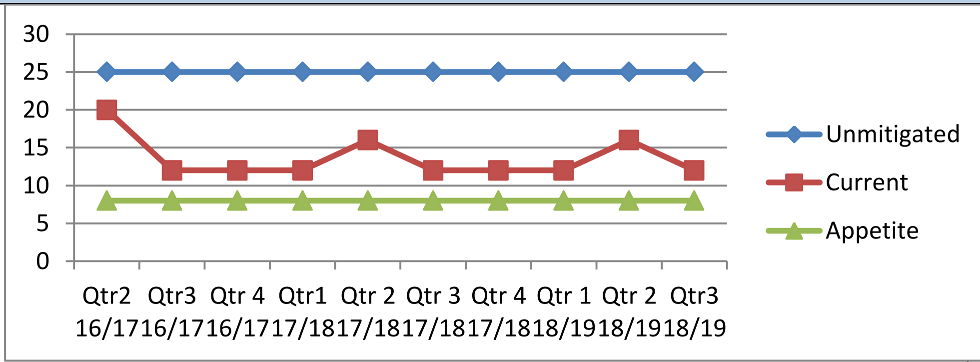
Unmitigated 5 x 5

Current Residual 3 x 4

Appetite 2 x 4

Potential Impact

Strategic objectives and statutory duties not met
Increased insurance claims/ legal costs/penalties.



Rationale for current score:
Process to set and balance the 2019/20 budget is now well progressed and additional monies have been provided for social care.

Rationale for risk appetite
Achieving a sustainable financial position is a core responsibility.

Current RAG rating	**Amber**

Current Actions *(What we are currently doing about the risk)*

- 4 year financial settlement in place
- Efficiency plan in place signed off by full Council.
- Transformation Board to deliver significant savings over the medium term.
- Continuous engagement with Members regarding priorities
- Medium term financial strategy will need to be continually monitored and reviewed
- CIL governance processes and procedures established and prioritising spend in accordance with BFC Regulation 123 infrastructure list. Regular dialogue with Town and Parish Councils to come to an agreed accord on spending of CIL monies.
- Approved capital spending plans are in place e.g. for Binfield Learning Village at Blue Mountain, the Commercial Property Investment programme. These are built in to the Council's capital programme and are monitored. Regular updates going to CMT.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
Medium Term Financial Planning	Director: Finance	Ongoing
2019/20 budget setting process	Director: Finance	Ongoing
Bidding again for pilot on business rates in 19/20	Director: Finance	Ongoing
Council wide debt management review in progress	Director: Finance	Ongoing

Strategic Theme 1:Value for money: Performance Measures :The cost, quality and delivery mechanism of all services will be reviewed by 2019

Risk 2: Council unable to deliver the transformation programme due to:

- **Difficulties in delivering individual projects**
- **Difficulties in tracking transformation changes**
- **Benefits/savings not being achieved**
- **Linkages between individual transformation projects and knock on effects across transformation projects not adequately identified and taken into consideration.**

Risk Owner: Chief Executive

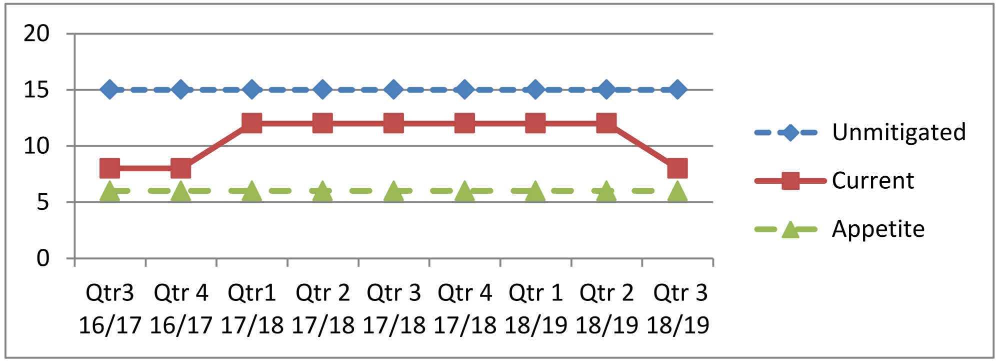
Risk Rating (Likelihood x Impact)

Unmitigated 3 x 5

Current Residual 2 x 4

Appetite 2 x 3

Potential Impact
Conflicting pressures between elements of the programme Core objectives/benefits not achieved. Statutory responsibilities not met



Rationale for current score:
Governance arrangements around the projects are robust and projects are generally on track but there are some resource pressures in terms of transformation project managers and in support services such as ICT and HR which are assisting with delivery of the projects.

Rationale for risk appetite
Transformation process is in response to the need to make radical changes to service delivery to be sustainable moving forward and hence a significant level impact is accepted but mitigated by a low tolerance for likelihood.

Current RAG rating	Amber

Current Actions*(What we are currently doing about the risk)*

- Transformation Board and regular Transformation Board meetings
- Programme Manager
- Transformation Risk Register in place
- Separate risk registers set up for the significant transformation projects
- Regular Transformation team meetings include monitoring of dependencies
- Key dependencies escalated to the Board
- Additional financial checks introduced for transformation projects managed within departments

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Exercise undertaken at CMT to prioritise transformation projects. This will now focus transformation resources by accelerating key projects where greatest financial impact expected and deferring projects with a lower level of return.	Chief Executive	31/3/19
Centralisation of transformation programme under the transformation team umbrella.	Chief Executive	31/12/18

Strategic Theme 1:Value for money: Performance Measure; Spending is within budget
Strategic Theme 6: Strong, safe, supportive and self reliant communities : Performance Measure: Safeguarding structures to safeguard children and vulnerable adults are well established.

Risk 3: Significant loss of and changes to responsibilities of key Council staff through redundancy, restructure retirements, etc. together with managing services with reduced capacity Council and staff resources re-allocated to the transformation programme. Council and its outsourced providers unable to recruit and retain staff at all levels.

Risk Owner: CMT

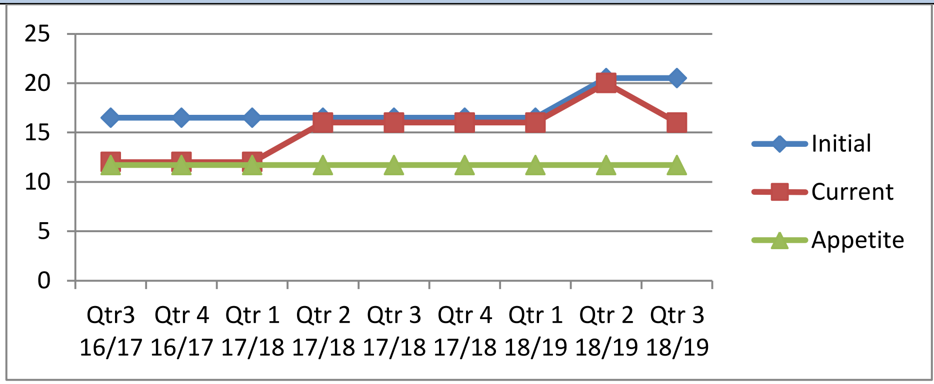
Risk Rating (Likelihood x Impact)

Unmitigated 5 x 4

Current Residual 4 x 4

Risk Appetite 3 x 3

Potential Impact
Disruption to services. Failure to meet statutory duties



Rationale for current score:
Appointments have now been made to senior posts and officers are already in post or due to start before the end of the quarter.

Rationale for risk appetite
Staff are the key resource in delivering key services and providing support to front line services.

Current RAG rating	Red

Current Actions(What we are currently doing about the risk)

- For BFC staff monitor the impact and review our reward and recognition approach as necessary to ensure that BFC remains seen as an attractive employer
- Introduce staff retention plans and measures and succession planning arrangements
- Workforce planning

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Monitor service delivery through providers of domiciliary care	Executive Director, People	Ongoing
Monitor financial impact	Director; Finance	Ongoing
Mitigation required re apprenticeship levy requirements	CMT	Ongoing
Sub-group of Transformation working group of workforce focusing on care in the community	Sub-group	Ongoing
Clear handover of responsibilities	Relevant senior officers	Ongoing
Appointment of interims to fill gaps during recruitment	Relevant senior officers	Ongoing

Strategic Theme 1:Value for money: Performance Measure; Spending is within budget

Strategic Theme 6: Strong, safe, supportive and self reliant communities : Performance Measure: Safeguarding structures to safeguard children and vulnerable adults are well established.

Risk 4 Uncertainty around the impact of alternative options for Brexit, the financial and operational implications for services such as social care, contingency planning requirements and the potential impact for businesses located in the Borough.

Risk Owner: Director Place, Planning and Regeneration

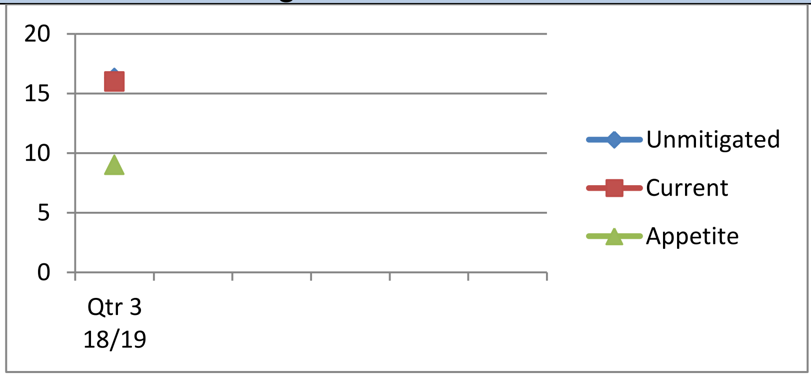
Risk Rating (Likelihood x Impact)

Unmitigated 4 x 4

Current Residual 4 x 4

Appetite 3 x 3

Potential Impact
Economic prosperity not sustained



Rationale for current score:
Current uncertainty means that the risk is relatively high.

Rationale for risk appetite
Given potential operational and financial consequences risk appetite is low.

Current RAG rating	Red

Current Actions*(What we are currently doing about the risk)*

- Reviewing impact in local teams

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Officer time being spent on looking at risk	CMT	Ongoing

Strategic Theme 3: **People have the life skills and education opportunities they need to thrive**

Performance Measures : School places are available in all localities

Risk 5: The Council Policy of providing local school places for local children results in a mismatch of provision.

Risk Owners: Executive Director, People

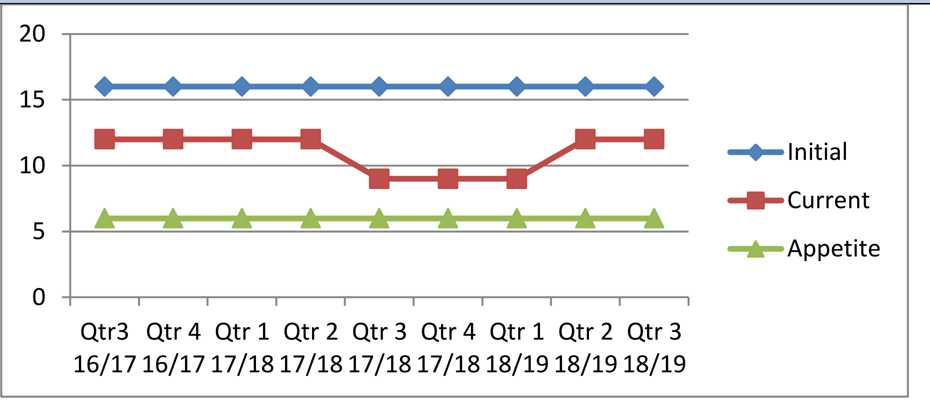
Risk Rating (Likelihood x Impact)

Initial underlying 4 x 4

Current Residual 4 x 3

Appetite 2 x 3

Potential Impact
Cost overruns/ pressure on the capital budget
Late delivery . Core objective to deliver required additional school places not delivered



Rationale for current score:
There is currently surplus of places.

Rationale for risk appetite
Risk appetite is fairly low given the Council's statutory responsibilities to educate

Current RAG rating	Red

Current Actions (What we are currently doing about the risk)

- Pupil Places Planning Board in place
- Annual school place planning based on a review of future housing plans, numbers on roll and demographic data provides data on
  - ⇒ pupil data and statistics
  - ⇒ forecasts of pupil numbers for the next five years
  - ⇒ commentary on the need to add or remove school capacity
  - ⇒ estimates of future housing growth
  - ⇒ School Places Plan and Capital Strategy approved by the Executive
- Reduction in pace of delivery of new schools and managing intake at Kings Academy Binfield

Further Mitigation (what more should we do to reduce risk to our risk appetite level)

	Officer responsible	Target date
The external consultant has now produced his independent report which will now be reviewed.	Executive Director, People	Ongoing
New pupil yield information is due in. This is based on a survey of householders in new houses to identify the numbers of children if properties	Executive Director, People	Ongoing

Strategic Theme 3: **People have the life skills and education opportunities they need to thrive**
Performance Measures :Children have access to high quality early years provision /School places are available in all localities /All young people who have left school go on to further education, find employment or undertake some form of training

Strategic Theme 4: **People live active and healthy lifestyles**
Performance Measures:Comprehensive public health programmes aimed at adults and young people/Personal choices available to allow people to live at home are increased///Integration of council and health services care pathways for long term conditions is increased /Accessibility and availability of mental health services for young people and adults is improved

Risk 6: Council unable to predict and plan for future changes and in-year variations in demands for services arising from demographic changes and national policy initiatives.

Risk Owners: Executive Director,People

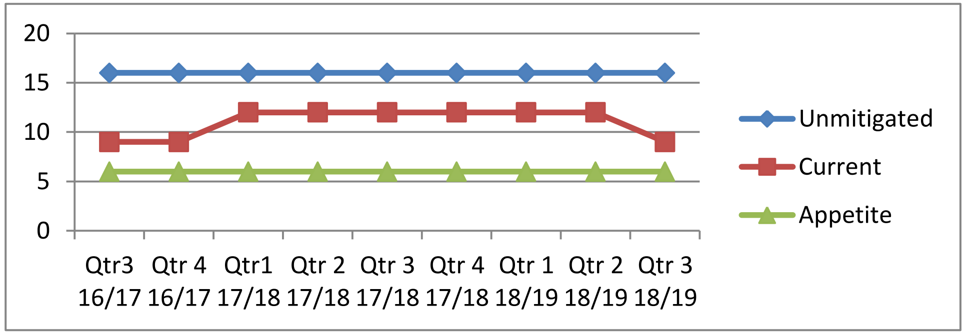
Risk Rating (Likelihood x Impact)

Unmitigated 4 x 4

Current Residual 3x 3

Appetite 2 x 3

Potential Impact
Failure to meet demand.
Statutory duties not met



Rationale for current score:
Increasing pressure on children's social care and adult social care. Impact of people in need coming into the Borough but there is flexibility in the Council budget to be able to respond to this.

Rationale for risk appetite
Tolerance in forecasting relatively low due to knock on effect on financial planning

Current RAG rating	**Amber**

Current Actions *(What we are currently doing about the risk)*

- Business intelligence being developed
- Redefining the community function
- Continuous monitoring of demand levels for children's social care
- Case by case challenge including robust legal challenge
- Monitoring impact of SEND reform and implementation of Education, Heath and Care Plans.
- Block contracts for high cost placements e.g. contract let for independent fostering agencies
- Edge of Care model in place to prevent escalation to intervention levels for children
- New Three Conversations approach for incoming cases and new RAS model introduced
- Early intervention and small budget available per team to use in preventative ways
- An asset based approach to assessment by social care staff
- Development of digital platform to support customers to use their direct payments creatively and greater use of community resources and technology in support

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
Reviewing transition from Children to Adult Social Care	Executive Director, People	Qtr 4

packages • A community model of intermediate care and reablement • Plans to develop up step up and step down beds in partnership with the Frimley Acute Trust • Increasing the number of personal assistants on the PA register that offer personal care	

Strategic Theme 4: People live active and healthy lifestyles
Performance Measures: Comprehensive public health programmes aimed at adults and young people/Personal choices available to allow people to live at home are increased///Integration of council and health services care pathways for long term conditions is increased /Accessibility and availability of mental health services for young people and adults is improved

Risk 7: Council unable to sustain delivery of services to support adult social care needs due to insufficient external provision for adult social care.

Risk Owners: Executive Director People

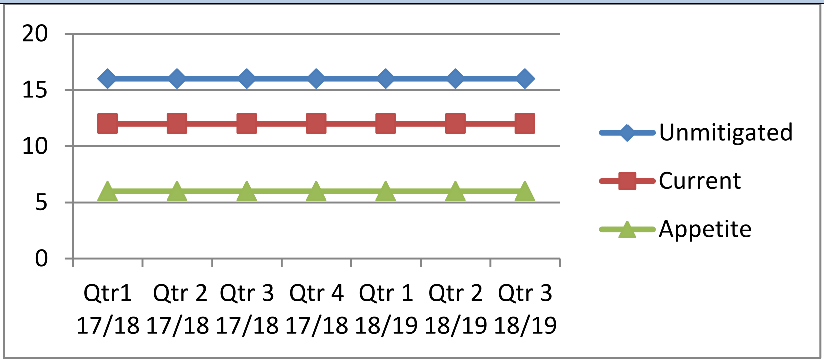
Risk Rating (Likelihood x Impact)

Unmitigated 4 x 4

Current Residual 4x 3

Appetite 2 x 3

Potential Impact
Failure to meet demand.
Statutory duties not met.
Increased budget pressures



Rationale for current score:
A number of residential care homes identified as at risk of closure. Whilst residential care provision is getting better there are still supply chain problems for nursing and domiciliary care and there is vulnerability in the whole market and uncertainty both nationally and locally around the Brexit provider staffing implications.

Rationale for risk appetite
Appetite is low due to the potential impact for vulnerable individuals.

Current RAG rating	**Red**

Current Actions *(What we are currently doing about the risk)*

- Monitor contracts and implementation of quality assurance process
- Gather intelligence through ADASS South East Commissioning network and from neighbouring authorities
- Working with CCGs, and other local authorities to actively create additional supply in the care home market
- Monitor financial standing of significant providers using internal intelligence and through the ADASS commissioning network
- Robust contingency planning where risks are identified
- Negotiating favourable block contracts to provide leverage on costs with other external providers in place

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
Re-use of the Heathlands site to deliver further social care provision	Executive Director People	Ongoing

Strategic Theme 6: Strong, safe , supportive and self reliant communities
Performance Measure: Safeguarding structures to safeguard children and vulnerable adults are well established.

Risk 8: Factors outside the control of the Council may result in the injury, death or sexual exploitation of a vulnerable child or adult in the community.

Risk Owners: Executive Director People

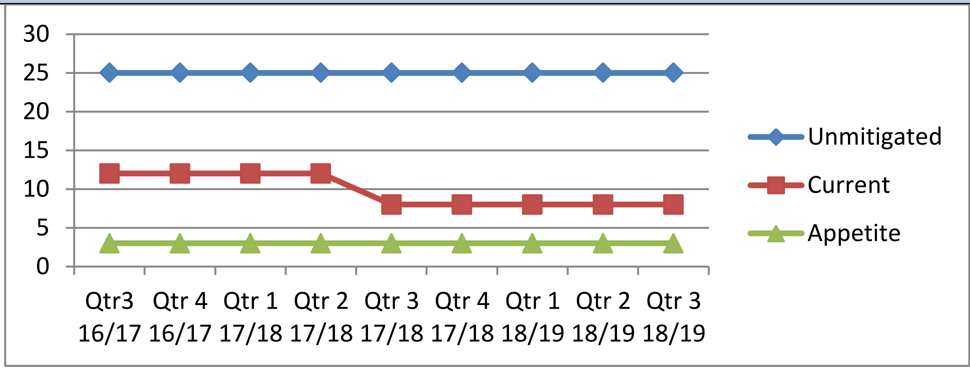
Risk Rating (Likelihood x Impact)

Unmitigated 5 x 5

Current Residual 2 x 4

Appetite1 x 3

Potential Impact
Loss or reputation. Fines/penalties. Insurance claims



Rationale for current score:
Increasing police protection referrals to Social Care, County lines and increased impact from drugs and gangs in the Borough.

Rationale for risk appetite
Given the risk relates to the safeguarding of vulnerable individuals the risk appetite will be low.
.

Current RAG rating	**Red**

Current Actions *(What we are currently doing about the risk)*

- Local Safeguarding Children's Board brings together senior and operational staff within local organisations to help co-ordinate services and make certain they work together to keep children safe from harm. The Board has a role in monitoring and overseeing the contribution partnership organisations make towards safeguarding children
- S11 Audits
- Proactive strategies for recruitment of social workers being implemented
- Proactive parenting projects now in place e.g. family group conferencing, Symbol project supporting parents with learning disabilities
- Multi Agency Safeguarding Hub
- Transformation project around early intervention and prevention.
- Monitoring children vulnerable to CSE and going missing via the multi-agency CSE/Missing operational group.
- Joint Safeguarding Adults Board (with W.A.M.) brings together key partners to work together to mitigate risks to vulnerable adults and prevent harm. Serious Adult Reviews provide learning that is shared across organisations to reduce risks. Safeguarding training is mandatory for staff within all of the member organisations and there is a continual focus on safeguarding awareness raising.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Developing more robust quality control internally	***Executive Director: People***	***Qtr 4***

• Commissioners and operational staff are involved in quality assurance monitoring of commissioned services together with the statutory body, CQC. • Adult Safeguarding Board in place with independent chair. • S11 audit completed. Action identified to log safeguarding training. • Changes to deprivation of liberty safeguards has resulted in increase in demand as expected hence dealing only with urgent cases which is the approach supported by DOH	

Strategic Theme 1:Value for money
Strategic Theme 2: A Strong and Resilient Economy
Strategic Theme 3: People have the life skills and education opportunities they need to thrive
Strategic Theme 4: People live active and healthy lifestyles
Strategic Theme 5: A clean, green growing and sustainable place
Strategic Theme 6: Strong, safe , supportive and self reliant communities

Risk 9: IT Strategy and digital infrastructure fails to meet the needs of the organisation. Pressure on ICT resources to deliver substantial and complex changes introduced under the Enterprise Agreement (EA) and potential end user resistance to both disruption during implementation and the changes being introduced.

Risk Owners: Interim Executive Director Delivery

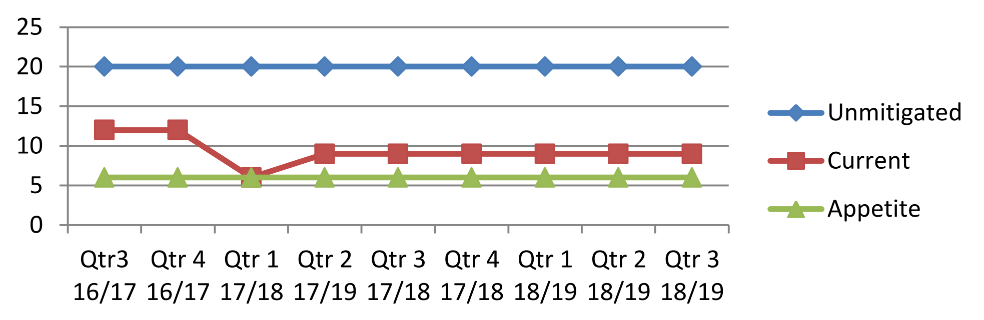
Risk Rating (Likelihood x Impact)

Unmitigated 4 x 5

Current Residual 3 x 3

Appetite 2 x 3

Potential Impact
Disruption to services. Failure to meet statutory duties.



Rationale for current score:
New Strategy being developed.

Rationale for risk appetite
Appetite is low due to dependency on IT for delivery of all services
.

Current RAG rating	**Amber**

Current Actions *(What we are currently doing about the risk)*

- Paper to Resources DMT and CMT in November to help get buy in to the EA project from the Directors
- EA Project being implemented module by module and communication will be made with teams affected at each stage

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
IT Strategy being revised.	Interim Executive Director of Delivery	Ongoing

Strategic Theme 1:Value for money
Strategic Theme 2: A Strong and Resilient Economy
Strategic Theme 3: People have the life skills and education opportunities they need to thrive
Strategic Theme 4: People live active and healthy lifestyles
Strategic Theme 5: A clean, green growing and sustainable place
Strategic Theme 6: Strong, safe , supportive and self reliant communities

Risk 10: IT controls or staff vulnerabilities fail to prevent a cyber attack and/or unable to respond effectively to an attack to enable IT services to be sustained.

Risk Owners: Interim Executive Director Delivery

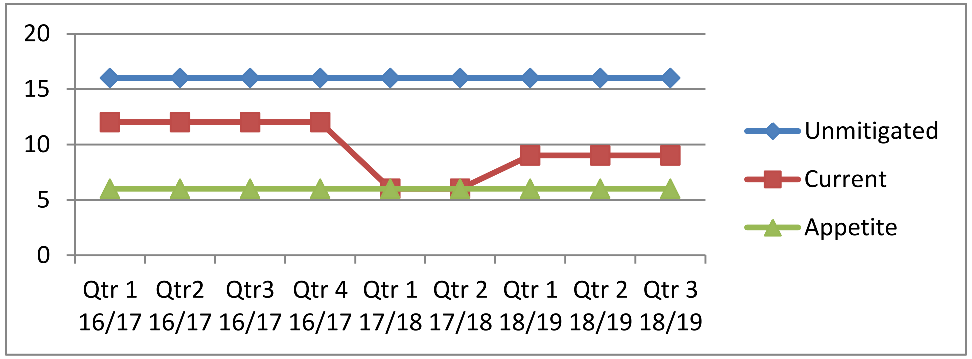
Risk Rating (Likelihood x Impact)

Unmitigated 4 x 4

Current Residual 3 x 3

Appetite 2 x 3

Potential Impact
Disruption to services. Failure to meet statutory duties. Reputational damage.



Rationale for current score:
Due to potential for human error and volume of attempts to attack the Council's systems.

Rationale for risk appetite
Appetite is low due to dependency on IT for delivery of all services
.

Current RAG rating	Amber

Current Actions *(What we are currently doing about the risk)*

- Use PSN and N3 accreditation process to test for vulnerabilities
- Members of government early warning groups such as CISP (Cyber-Security Information Sharing Partnership) and WARP (Warning, Advice and reporting point)
- Communication to raise staff awareness to risks
- Disaster Recovery Plan and Action Plan for the systematic recovery of systems.
- Disaster Recovery contract with a provider to get systems up and running and an Action Plan for the systematic recovery of systems

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Reminders on risks will be issued to staff after PSN accreditation issued	Assistant Director :ICT	Ongoing
Develop a cyber security action plan following the audit of this area.	Assistant Director :ICT	Ongoing
Cyber risks monitored through Delivery risk register	Assistant Director :ICT	Ongoing

Strategic Theme 1:Value for money
Strategic Theme 2: A Strong and Resilient Economy
Strategic Theme 3: People have the life skills and education opportunities they need to thrive
Strategic Theme 4: People live active and healthy lifestyles
Strategic Theme 5: A clean, green growing and sustainable place
Strategic Theme 6: Strong, safe , supportive and self reliant communities

Risk 11: Council unable to comply with data protection/security requirements to secure data resulting in inappropriate disclosure, loss or theft of sensitive data. Uncertainty of impact of placing more responsibility on end users by changing IT controls to meet business needs (E.g. changes to protective marking, access to Windows 10 and removal of Endpoint).Failure to meet requirements of GDPR.

Risk Owners: Interim Executive Director Delivery

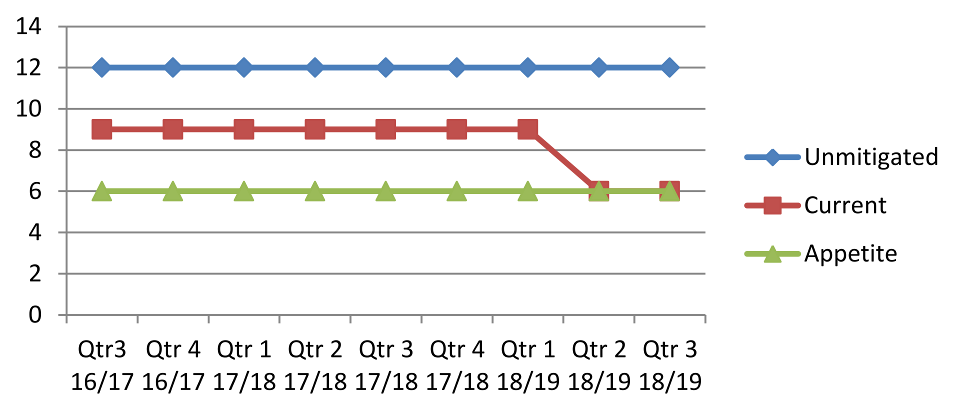
Risk Rating (Likelihood x Impact)

Initial underlying 3 x 4

Current Residual 2 x 3

Appetite 2 x 3

Potential Impact
Fines/penalties. Disruption to services. Failure to meet statutory duties. Removal of access to external databases and systems e.g. DWP



Rationale for current score:
The number of reported incidents is low. Incidents tend to be due to human error rather than weakness in control. The new GDPR came into effect 5 months ago. Fines are increasing under this and hence potential impact remains high.

Rationale for risk appetite
In addition to the financial risk, financial penalties are now very high and will be increasing further hence the Council will seek to minimise the risk of these being incurred.
.

Current RAG rating	**Green**

Current Actions *(What we are currently doing about the risk)*

- E-learning for information security and data protection.
- Monitoring of information security breaches at Information Governance Group, SRMG and at CMT.
- Information Asset Register. IT systems holding information assets are now being identified. Data mapping to be undertaken as part of GDPR implementation
- GDPR compliance action plan in place

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
Working with HR on policies for users and communication strategies	Assistant Director :ICT	Ongoing
E-Learning to be updated as part of GDPR implementation	Lawyer (Information Management and Security)	Ongoing

Strategic Theme 1:Value for money
Strategic Theme 2: A Strong and Resilient Economy
Strategic Theme 3: People have the life skills and education opportunities they need to thrive
Strategic Theme 4: People live active and healthy lifestyles
Strategic Theme 5: A clean, green growing and sustainable place
Strategic Theme 6: Strong, safe , supportive and self reliant communities

Risk 12: Business Continuity Plans and procedures inadequate or not clearly communicated and understood.

Risk Owners: Director; Finance

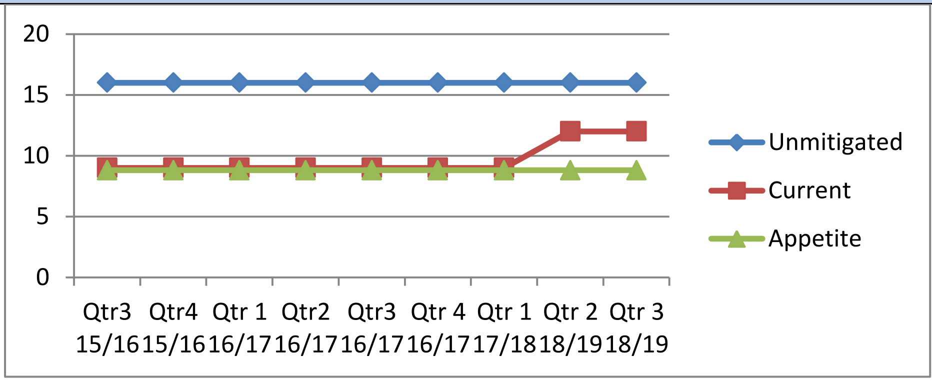
Risk Rating (Likelihood x Impact)

Unmitigated 4 x 4

Current Residual 4 x 3

Appetite 3 x 3

Potential Impact
Failure to respond effectively to a business continuity incident Disruption to services. Failure to meet statutory duties



Rationale for current score:
Council wide response plan is out of date and does not reflect the reduced estate and agile working. Recent incidents have identified the absence of a disaster recovery trigger point plan to enable ICT to respond appropriately and proportionately in the event of an incident. Loss of knowledge in ICT due to staff leaving.

Rationale for risk appetite
The Council has accepted resources to be applied to business continuity are limited and that arrangements should only fulfil basic mandatory requirements.

Current RAG rating	**Amber**

Current Actions *(What we are currently doing about the risk)*

- Council Wide Business Continuity Plan in place although this is out of date and needs to reflect the reduced estate and agile working and new structure.
- Key contracts are monitored on a regular basis as part of the contract performance mechanisms in place for all contractors. This should address any capacity or performance issues that might indicate that there may be issues with financial/general viability
- Financial assessments of tenderers undertaken for all major contracts let by the Council and annual financial assessment checks where appropriate for major contractors
- New backup solution now in place. .
- To raise profile of having effective contract management in place
- Increased resilience due to power generator being in place and system replication
- Emergency planning arrangements now in place.
- DR testing scheduled

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	**Target date**
Council wide business continuity plan to be updated	Director: Finance	January 2019
ICT to develop trigger point plan for response to an incident	Assistant Director :ICT	January 2019

APPENDIX 2

RISK MATRIX

LIKELIHOOD

5					
4					
3					
2					
1					
	1	**2**	**3**	**4**	**5**

IMPACT

Likelihood:
5 Very High
4 High
3 Significant
2 Low
1 Almost Impossible

Impact:
5 Catastrophic
4 Critical
3 Major
2 Marginal
1 Negligible

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TO: GOVERNANCE AND AUDIT COMMITTEE
30 JANUARY 2019

APPOINTMENT OF EXTERNAL AUDITOR FOR HOUSING BENEFIT ASSURANCE PROCESS
DIRECTOR: FINANCE

1 PURPOSE OF REPORT

1.1 To notify to the Committee of the appointment of the Council's external auditor Ernst & Young to audit the Housing Benefit grant claim for 2018/19.

2 RECOMMENDATION

2.1 The Committee notes that Ernst & Young LLP has been appointed to undertake the required audit of the Housing Benefit Grant Claim for 2018/19.

3 REASONS FOR RECOMMENDATION(S)

3.1 The Committee has previously agreed (January 2018) to recommend that the Council accepts the appointment of Ernst & Young LLP as its external auditor, which was the outcome of the PSAA collective procurement process that Bracknell Forest Council agreed to be part of. The PSAA process covered the main external audit only, meaning that individual authorities have had to make separate arrangements to secure the required external audit of their annual Housing Benefit grant claim.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The alternative of seeking proposals from other organisations was considered and would have been taken had Ernst & Young, the Council's appointed external auditor, not provided a value for money proposal.

5 SUPPORTING INFORMATION

Background

5.1 At its meeting on 27 January 2017 the Committee agreed to recommend to Council that Bracknell Forest join the Public Sector Auditor Appointments collective procurement arrangement to appoint an External Auditor from the 2018/19 financial year. In October 2017 the PSAA wrote to Chief Executives and Chief Finance Officers to inform them of the preliminary results of their procurement process and invite any feedback around possible impediments to their draft conclusions. As it was notified that the process had concluded that Ernst and Young should be re-appointed as the Council's auditor, there was no reason to object, given that the relationship with the firm is a constructive one.

5.2 The terms of the PSAA procurement process covered only the core external audit and excluded any additional work, most notably the required annual audit of the Housing Benefit grant claim. The Director: Finance explained to members of the Committee that there were three broad options available to procure this external audit work:

- Seek a proposal from the Council's appointed auditor, Ernst & Young LLP

- Seek proposals from other suitably qualified accountancy firms (noting that only the major firms who currently undertake external audit work for local authorities would have the necessary expertise)
- Work with neighbouring authorities to undertake a joint procurement

5.3 Members of the Committee gave a steer to the Director: Finance that he should start by seeking a proposal from Ernst & Young in order to assess whether it would represent value for money, recognising that this would be the least disruptive approach.

5.4 The Director: Finance subsequently asked Ernst & Young to submit a proposal while, in parallel, seeking the view of other Berkshire Treasurers around a possible joint procurement approach. It was confirmed that there was no appetite for the latter, with others having already made arrangemenmts with their appointed external auditor or seeking to do so.

5.5 The proposal from Ernst & Young (included as confidential annex to the report on the grounds of commercial confidentiality) confirmed that they would seek a fee for the work of slightly lower than the current price (subject to the usual caveats). Having sought the views of staff involved in the audit, who confirmed that they were content with Ernst & Young's approach and quality of work, the Director: Finance has confirmed acceptance of the firm's proposal for 2018/19.

5.6 No commitment has been made beyond 2018/19, therefore if there is any deterioration on the quality of the work or unjustified increase in the price for the 2018/19 audit the Council can decide to seek proposals from other organisations for future years.

6 BOROUGH SOLICITOR'S COMMENTS

6.1 To be advised

7 BOROUGH TREASURER'S COMMENTS

7.1 The proposal in the report is expected to secure a small saving from the fee incurred in completing the work for the 2017/18 audit.

8 OTHER OFFICERS

8.1 Not applicable

9 EQUALITIES IMPACT ASSESSMENT

9.1 Not applicable

10 STRATEGIC RISK MANAGEMENT ISSUES

10.1 None

11 PRINCIPAL GROUPS CONSULTED

11.1 Not applicable

12 BACKGROUND PAPERS

12.1 HB Assurance Process Proposal – Ernst & Young (Confidential)

13 CONTACT FOR FURTHER INFORMATION

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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